★ HOW FAR CAN THIS MARKET GO? ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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ADMINISTRATION'S ECONOMIC POLICY WHAT IT WILL LEAD US TO
Who'll Pay The Piper?
By PAUL J. MAYNARD

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By GEORGE E. WINES

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Contents

Our Cover:

Depicts consumers flocking to stores as pace of Christmas shopping increases.

Credits:

Chart-map page 269—Courtesy N.Y. Times

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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

THE PURSUIT OF THE FAST BUCK . . . has reached such proportions in this country that it is nauseating. The latest is the attempt to turn shelter building into a money-making scheme for those who seek to capitalize on affection and the love of life, and the concern our citizens have for the preservation of their families under nuclear attack, and through this money-making scheme, hysteria and panic are being created.

Actually, the well-advertised shelters today offer little or no protection, so that the guarantees are obviously worthless. My twelve year old granddaughter put her finger on the truth of this situation when she asked, "What's the use of hiding in a shelter for a couple of weeks if there will be no food or water left on earth to keep us alive when we reach the surface?"

We grownups already are aware that these shelters are useless in the event of nuclear bombing which could devastate an area of hundreds of square miles and produce a crater at least a mile deep.

When men's minds concentrate on money, their ideas reach the heights of absurdity. Take the scheme recently brought to our attention, which touted a plan for the erection of a motel with fall-out rooms above and blast-proof rooms below, and called on the individual to "invest" $5,000 to assure himself of space in this motel. The offer includes the return of $1.00 a day to be paid to the "investor" for every day he does not use the shelter—and what is more, it pointed out that this can mean a return of 7.1% on his $5,000 investment. I would hate to believe that such a scheme would appeal to the people of our country! Another offer to prevent you from being bored to death while in the shelter, invites you to buy glass brick with which to make a picture window, so that you can look out and see the devastation as it occurs and get a front-row view of the end of the world.

Actually there is little possibility of a nuclear war that would destroy the earth in its entirety. The diggings of archeologists in recent years, have brought to light evidences of great cultural civilizations going back thousands of years, indicating that

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

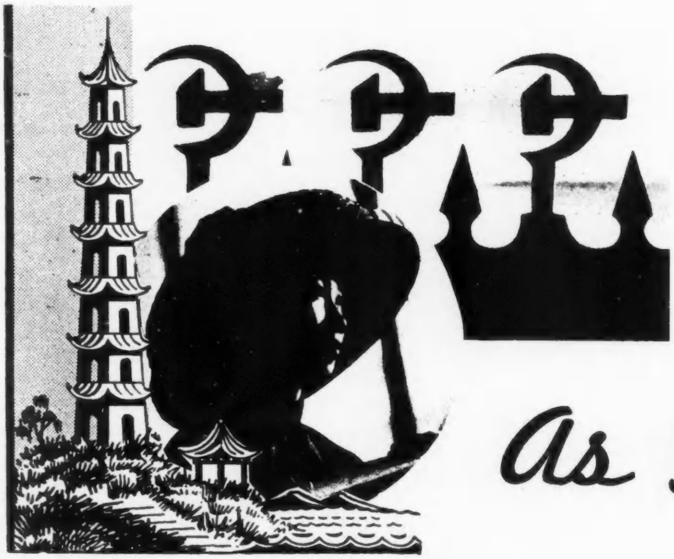
modern man may have merely rediscovered forces that wiped out vast areas in ages past, and that these devastations have occurred again and again in the history of man.

The problem we face today is that our civilization seems to be reverting to the brutality of a primitive existence which, together with the sophistry of this modern age, has developed a cynicism that measures everything by the yardstick of gold instead of the real values of life.

Will it be necessary to experience the devastating holocaust of nuclear war before men learn that life cannot be measured by gold? In days past, survivors of great disasters offered their gold, their jewels, and even all their possessions—merely for a crust of bread.

What we need today is leadership with the courage, understanding and common sense that will influence the world toward peace, as well as the development of plans that will direct the effort of our scientists toward preventing a nuclear war from ever taking place.

This is the hope of the world, for it points the road to survival and to the new and better age we long for.



As I See It!

By Malcolm Stewart

THE KENNEDY ADMINISTRATION IS SETTING A NEW HIGH IN INCONSISTENCY IN SOUTHEAST ASIA AND ENDANGERING OUR POSITION IN THE PACIFIC

As though Berlin were not enough, we now face a much more critical situation in Southeast Asia, that could so strengthen Red China and World Communism as to produce irreparable damage to our country and the people of the United States. For, while we are concentrating on the Atlantic, a new and crucial danger is building up from the Pacific.

SAIGON—Here in Southeast Asia, on the other side of the World from Berlin, American prestige is just as deeply involved in the anti-Communist struggle as it is in the German crisis. But the issues are not so sharply drawn. The confrontation is not yet direct. The possibilities for action are more confused.

Nevertheless, President Kennedy's Administration is on trial in the eyes of millions of Southeast Asians who long for some dramatic evidence that the United States is determined to halt the tide of Communism creeping down the Indochinese peninsula.

The stakes are enormous. Here in Southeast Asia are all the resources traditionally coveted by China, including the food so badly needed by the Red regime in Peking. As famine stalks Red China again, the pressures increase. The campaign of Communist terrorism in Viet Nam mounts and threatens to turn from guerrilla action into full-scale warfare.

In South Viet Nam—as well as in Laos, Thailand and the Philippines—the talk is of declining American prestige in the wake of the debacle in Laos, where we allowed the Reds to slicker us into a "compromise" which eventually will deliver the country to the Communists.

The limited measures President Kennedy is taking, upon recommendation by General Maxwell D. Taylor, to bolster, train and increase the efficiency of South Viet Nam President Ngo Dinh Diem's forces are welcome as far as they go. But their success will depend in large part upon Diem's somewhat doubtful willingness to eliminate some of the graft, politics and inefficiency from his army and government. The United States so far doesn't appear willing to knock any heads together to force this.

But this situation is just one part of a much bigger picture.

►The basic problem is that the United States has never yet faced up to the question of whether it is prepared, if necessary, to fight a large-scale war to hold Southeast Asia.

Until such a basic decision is taken, American actions are bound to be erratic and indecisive. They are bound to amount to nothing more than attempted holding operations which delay but do not stop the Communist thrust southward.

Making Decisions on a Lack of Background Knowledge

The big trouble is that this Administration, just as the previous one, is trying frantically to find successful short term tactics without having first decided its long range strategy.

Some White House advisers, who have urged throwing a couple of American divisions into South Viet Nam to "turn the tide" against the Communists, apparently have not the slightest idea of the ramifications of such action. Engaging American combat troops is an action which should be taken by the President only if he decides to go all-out to save the area. It is a step which should be taken only with full realization that it may eventually necessitate commitment of hundreds of thousands more troops if the Chinese Communists enter.

The President's Responsibility

It is up to the President, in the final analysis, to decide whether American combat troops should intervene in Southeast Asia. Whether Congress should be consulted is, for the time being, academic. The President has decided, for the moment, against such a commitment.

But even in its employment of patchwork holding devices in the area, the Kennedy Administration is setting a new high in inconsistency.

It is helping the anti-Communist forces of Diem in Viet Nam while preparing to pull the rug out from the anti-Communist elements in neighboring Laos led by Prince Boun Oum and General Phoumi Nosavan.

While pouring more aid to the anti-Red units in South Viet Nam, it has decided to put all its cards in Laos on neutralist Prince Souvanna Phouma, who has a long record of double-dealing and intrigue with both the West and the Communists. This sell-out to the neutralists and Communists is being undertaken at a time when the anti-Communist forces under General Phoumi are more ready and better able to fight than they ever were.

When the full extent of the American deal in Laos becomes known, it will strike a damaging blow against anti-Communist morale in neighboring South Viet Nam. This doesn't make sense and even some staunch Administration supporters are puzzled and dismayed.

If Kennedy doesn't want to send American combat forces to Southeast Asia, and if the holding operations in the area are ineffective, there still is a third course to be taken.

It is a course which would bring effective manpower to bear against the Communists in the area without engaging American combat forces and raising the cry of a white man's war against Asians.

Why Not Take The Asian Help Being Gladly Offered

The Philippines, Pakistan and Thailand, the three Asian members of the eight-nation SEATO Alliance, are ready to supply the fighting men if the United States will support and equip them. They are prepared, among themselves, to put at least 100,000 troops into South Viet Nam or anywhere else in the area they may be needed.

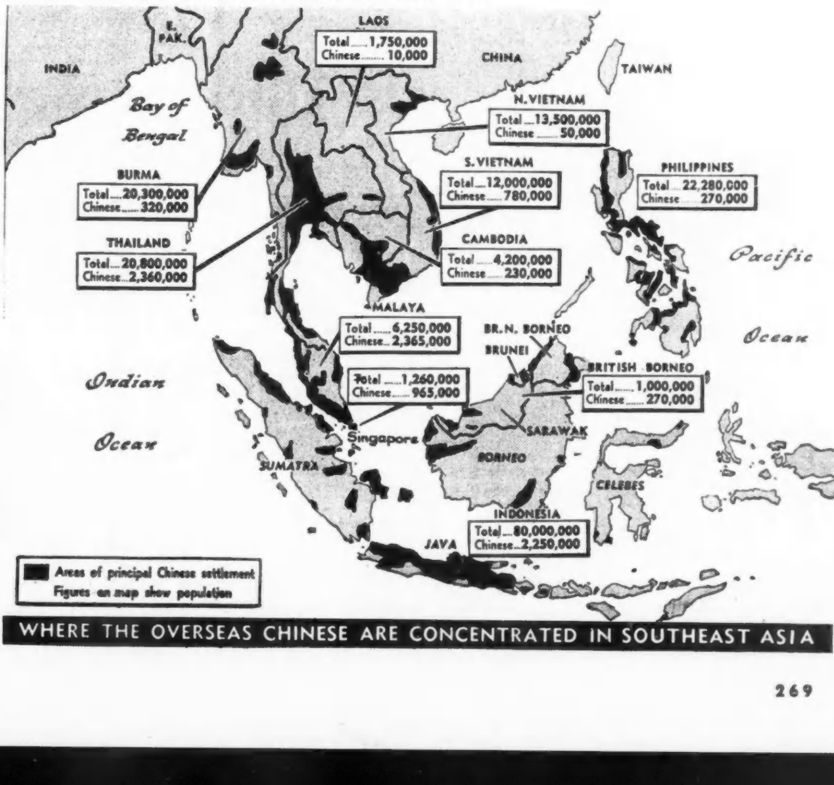
They would not be "invaders" from afar but fellow Asians coming to the aid of established governments in their own neighborhood.

Their action could be endorsed by SEATO if the alliance would take one simple step, proposed by Thailand, to by-pass continued refusal by SEATO member France to endorse any effective action in the area she once held, but lost. This step would be to amend the rules to permit SEATO to act by majority action instead of requiring unanimous approval.

But impetus from the United States is needed to get this rules change approved. It would be easy if Kennedy would push it. But so far there has been no action from Washington to take advantage of this movement of Asians willing to fight to save other Asians from Communism.

The anti-Communists in Southeast Asia are running out of both time and real estate. Some decisions are far overdue. The Kennedy Administration seems strangely unable or unwilling to face up to reality in the area and act decisively on a broad scale before it is too late.

• *Vast Area Now of Great Concern To The U.S.*



WHERE THE OVERSEAS CHINESE ARE CONCENTRATED IN SOUTHEAST ASIA

How Far Can This Market Go?

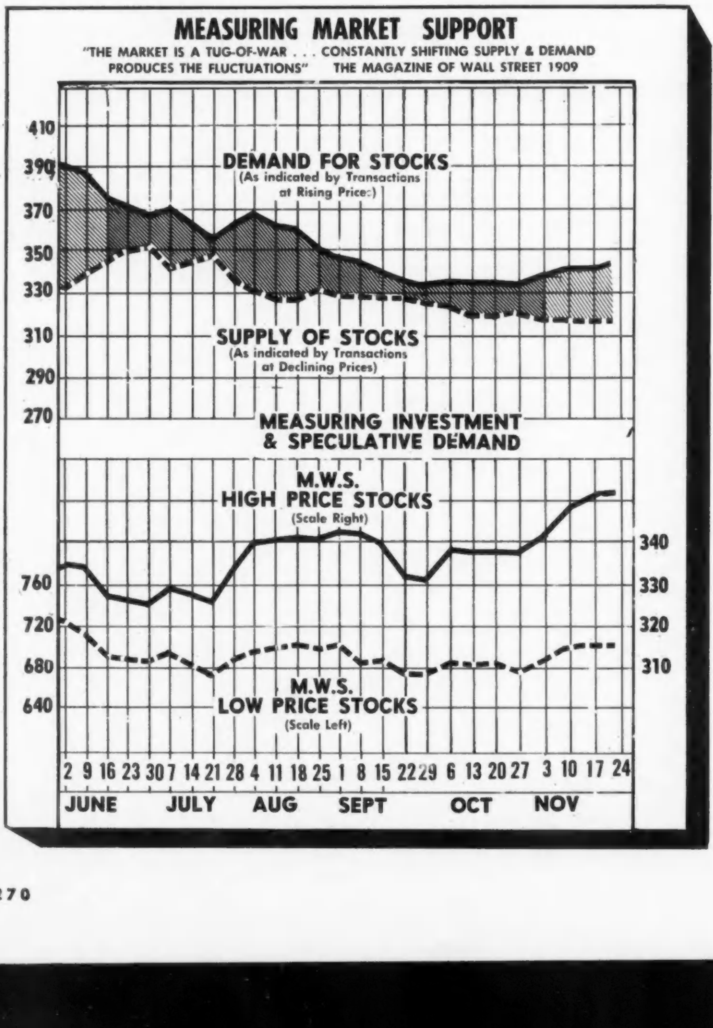
In an extremely mixed market, the industrial list has extended its prior rise only slightly so far, rails have lagged and utilities look tired. Prospects for a sustained broad advance remain questionable, although near-term tendencies should be upward in line with usual year-end behavior. With good values scarce, a careful, selective policy is advisable.

By A. T. MILLER

A moderate net gain was scored by the industrial average over the past fortnight; and, after considerable churning in recent sessions, it ended last week on an up-beat. Rails lost ground over the period. Utilities rose further for a time, but receded slightly last week as their uncommonly advanced price levels made for less aggressive demand and induced some profit taking.

While the recent spurt brought considerable cheer to the financial community, it was something like a football team grinding out a laborious two-yard gain, instead of pushing through the opposition in a sustained drive. The rise by the Dow industrials from the late September minor-reaction low to the November 15 new all-time high amounted to roughly 42 points, with the greater part of it seen in the first two November weeks.

Measured in points, it looks good, and in any event is on the positive side—so far as it goes. However, it extended the earlier top, attained September 7 at 726.53, by little over 1% and this was down to less than 1% as of last week's close. Because so much business revival has been discounted, market potentials could be more restricted than dynamic at this point, perhaps to some extent in line with the 1956-1957 experience previously cited here in some detail.



If the professionals are going to make a play in rails, it might come after more tax selling is out of the way. Certainly the recent performance has been somewhat on the dreary side. The year's high to date—far under older highs—was attained on a short, sharp spurt on October 11 at 152.92 for the average. The close last week was 147.75, off 3.27 points on the week and 5.17 points, or nearly 3.4%, from the October top.

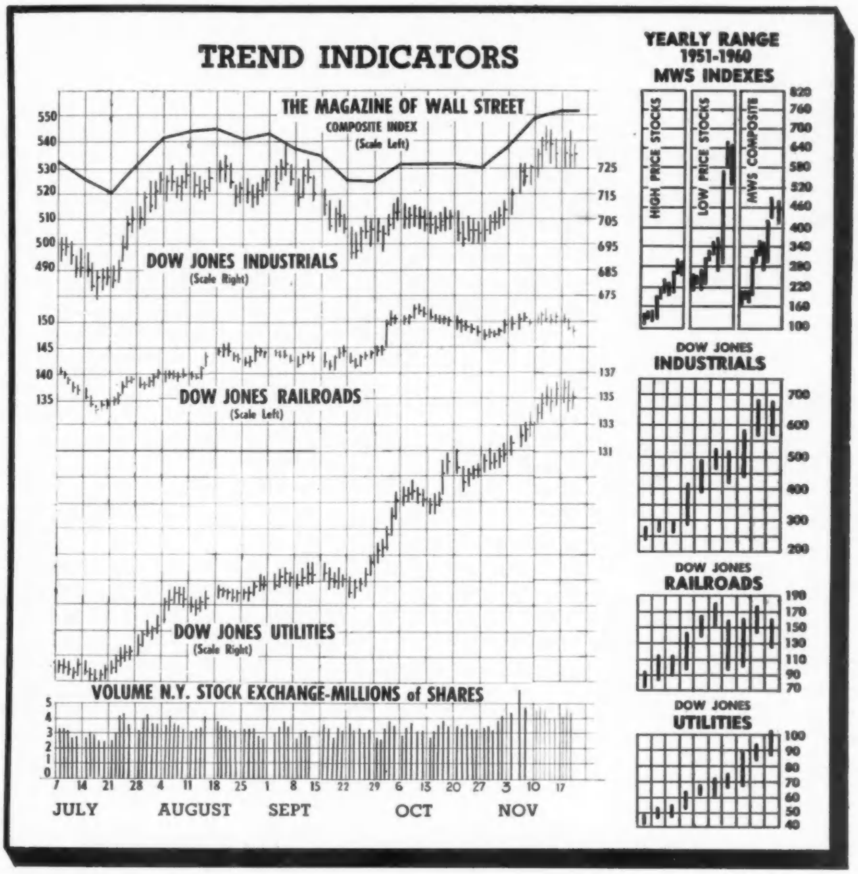
Position Of Utilities

Prior to last week's congestion and narrow movement, the utility average had risen, with few pauses, almost 50% from its October, 1960, low, paring average yield to less than 2.9% and, of course, running far ahead of the consistently moderate growth in the industry's earning power. Of course, institutional funds hold these stocks in high basic regard, for obvious reasons, as also do many individual investors; and there is a scarcity both of old shares for sale and of new-issue offerings. The same is so of industrials of institutional grade, since most the industrial new issues are in the speculative class.

Yet, regardless of this inflationary supply-demand balance, utilities cannot indefinitely rise at a rate over five times as rapid as the growth of earnings and dividends. We note among professional advisers and fund managers some cool-

ing down in bullishness on the group at present.

Meanwhile, the principal technical indicators — like the market — are mixed. Our demand-supply measures maintain a favorable spread, without any great change over the last fortnight; but, as the chart emphasizes, it is far narrower than the spread seen in a strong, more active and more speculative market last Spring. There has been some deterioration in the breadth factors recently, and much more as compared with last Spring.



Last week there were gains in 696 individual stocks, declines in 619. That is a minor difference on the favorable side. It compares with 766 "ups" and 589 "downs" in the prior week; and with 944 and 391, respectively, in the trading week ended November 10. There has been a slight worsening also in the new-highs indicator. Last week there were 197 new highs, against 33 new lows, whereas in the prior week the score was 233 to 24. This is not decisive, of course, and may well change for the better on the "usual year-end rise." For some time, however, the average monthly showing by this indicator has been a good deal less bullish than was so last Spring.

Aside from some special situations, institutional and other investors are still leaning largely to basically conservative stocks, including finance companies, foods, food stores, bank and insurance stocks and tobaccos. But there is a question how conservative they may be at today's prices. Even from this year's lows, advances in various defensive-type groups have ranged from 40% or so to over 60%, while the earnings rise has been much more restrained.

Aside from a current play in textiles, a good showing by tire-rubber stocks and fair demand for the two leading auto stocks, there is limited interest in cyclical issues, and least interest in heavy-industry, capital-goods stocks. Evidently with the time factor in mind on possible "long-term" gains, the market is not confident where such issues might be six months hence.

Excepting for rallies, the consensus seems to be that most of the former "glamour" stocks—over-exploited by Spring and now down sharply—have "had it." The market needs some new leadership and nobody can say where it might come from.

Most stock analysts say they are "running out of ideas." They still come up with some recommendations—mostly unexciting. But they find fewer and fewer issues meriting *enthusiastic* buying advices.

General Business Outlook Favorable

Probably the business revival, checked in late summer, is back on the track again. The Reserve Board production index rose slightly in October and about equalled the August peak. The trend should be upward at a moderate average pace well into the new year. Manufacturers' orders for durable goods have risen further and more so than sales, thus adding to backlogs, although they are not very heavy as judged by older standards.

Home starts gained sharply in October, but trade opinion is that their average 1962 level will do well to approximate the present one. Personal income has risen to another new peak and there has been some improvement in retail trade. However, it is doubted that consumers will spend as freely for cars and other hard goods as they were doing in the mid-1950's when the last of the postwar shortages were made up. There is no bounce so far in steel activity. In view of surplus capacity and the profits squeeze, we look for only a recovery in plant-equipment outlays, not a boom. Price cutting continues in a number of lines, with chemicals and building materials two notable examples.

Finally, how long can Kennedy's loose fiscal policy continue as our adverse balance of international payments is again getting wider and the drain on our gold holdings accelerates?—**Monday Nov. 27.**

ADMINISTRATION'S ECONOMIC POLICY —WHAT IT WILL LEAD US TO

Who'll Pay The Piper?

By PAUL J. MAYNARD

► **An attempt to rationalize Dr. Heller's economic philosophy as applied to the United States — Where it borders on the fantastic in today's world — and can lead to nationalization.**

► **The simple remedies suggested by the practical economists — how a get-together between government and business can solve our problems.**

RECENT events have tended to establish rather definitely the fact that the recovery phase of the business cycle in the nation is well under way. Practically all the accepted indices of production and consumption confirm the fact that 1962 should be a year of a markedly increased rate of business activity. This brings up the all important question of where we go from here.

In attempting to understand the economic policy or philosophy of the Kennedy Administration it is helpful to examine the writings and address of the Chairman of the President's Council of Economic Advisers, Dr. Walter W. Heller. On at least three recent occasions Dr. Heller has provided some illumination to listeners on the subject of the economic philosophy and policy of the present Administration.

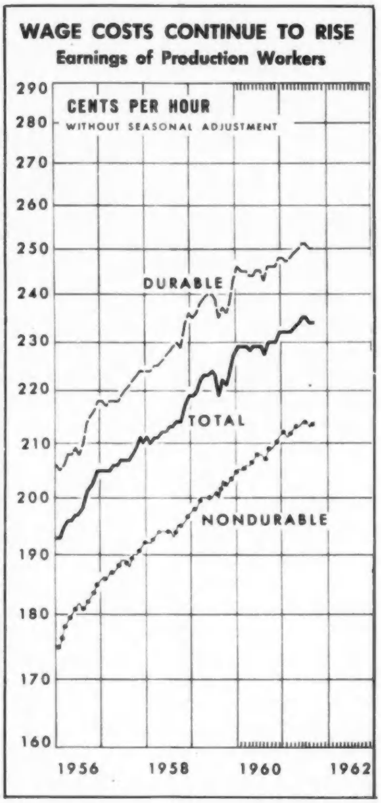
► At a meeting in Chicago in October Dr. Heller is quoted as having stated, *"There are constructive deficits. Government dollars bear no mysterious tag that renders them more explosively inflationary than private dollars."*

► At another October meeting in Hot Springs, Virginia, where Dr. Heller spoke to the Business Council (which is composed largely of the big names in American manufacturing and commerce),

he said in part, *"The test next year will be whether the surge of recovery will continue toward full employment or whether a revival of creeping inflation will hamper our efforts to use the full potential of the economy in the service of our national goals."*

► Still further illumination on the subject of the Administration's and Dr. Heller's economic philosophy was provided in a talk he gave in New York in November as part of the Administration's so-called "grass-roots" series of explanatory meetings in various parts of the country. *Here Dr. Heller was quoted as expressing a reluctance to see the government adopt higher interest rates or a "restrictive budget policy" just to help cure the nation's international payments deficit.*

He indicated that certain preventive measures, such as encouraging exports and getting our allies to take over some of the foreign aid burden would provide a solution for the balance of payments problem. But if these proved inadequate, he indicated that the hard cure would be to restrict the economy through higher interest rates, a restrictive budget policy and similar methods. He indicated that the latter would be a high price to pay for the failure of preventive measures.



Philosophy Back of It All

It is apparent that through all of these comments runs the thread of thought that tends to defend large government expenditures and deficit financing as valid economic instruments to stimulate the rate of business activity. Dr. Heller's statements mirror the Kennedy Administration's belief that it is the government's duty to prime the nation's economic pump until the unemployment rate is brought down from its present level of about (the so-called) 7% to 5% or under, and until most of the nation's idle plant capacity is being used. The inflationary implications of these actions are completely ignored.

► Another facet of the Administration's economic philosophy which is revealed in Dr. Heller's statements is the belief that inflation does not have its causes in loose fiscal policy or in cost-push wage increases, but arises from price increases ordered or administered by business management. This belief is implicit in the letters which President Kennedy wrote to leaders of the steel companies in September, asking them to refrain from raising prices to absorb the higher wage costs brought about by the automatic steel pay increases which became effective October 1.

► The third part of the Administration's economic philosophy, as revealed by Dr. Heller's statements, is based on the belief that a so-called "restrictive" budget policy and higher interest rates would be harmful and should not be resorted to just to help solve the problem of the deficit in our balance of international payments. Along with this concept, and part and parcel of it, is the tendency toward reliance on "preventive measures." Here the suggestion is that certain steps can be taken which may violate economic laws, but if preventive measures are taken, the consequences can be avoided.

Policy Creates Fear Among Practical Businessmen

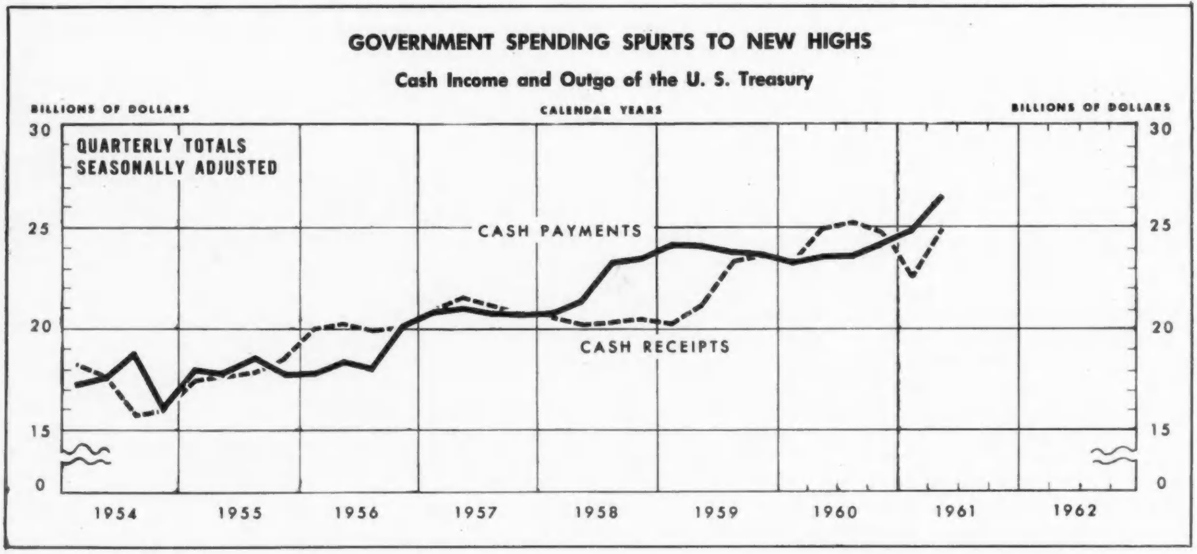
To economists trained along the more orthodox or classical lines of economic theory (and this would include most business economists) the aforementioned body of economic thought is far off the beam and represents primarily an apology for inflationary government spending programs. **Perhaps because even businessmen untrained in economics can sense this weakness in the economic policy of the Administration, their fears of inflation have grown. The acceleration in the rate of business activity which has taken place recently has tended to further increase this apprehension.**

► The reference to "constructive" deficits brings to mind the pump-priming schemes of the Roosevelt Administrations which certainly cannot be described as either sound or successful. And the lack of a distinction between private spending and public spending ignores the fact that the government's power to print money has a strong bearing on the danger of inflation inherent in excessive government spending—especially on a budget deficit basis.

Fiscal Irresponsibility of Piling Deficit on Deficit

Actually, the continued failure to balance the nation's budget is causing a steady attrition in world confidence in our currency. Even in good years such as the present one, the deficit will be large—approximately $7 billion for the fiscal year ended June 30, 1962. We have had deficits in all but seven of the last thirty-three years. Certainly this lack of fiscal discipline cannot be continued indefinitely without disastrous eventual consequences. While we are promised that the budget will be balanced in the fiscal year ending June 30, 1963, it remains to be seen whether or not this will be achieved. Even now there are indications that further increases in expenditures will be requested to meet steadily rising expenditures for defense, for civilian programs and for foreign aid obligations.

► The word "restrictive" has seemingly evil budgetary connotations for Administration economists even though it might be interpreted by some observers to mean "sensible" or "prudent." According to Dr. Heller and his associates, to balance the budget is to adopt a "restrictive" policy and to permit interest rates to seek their own level



would also be considered to be "restrictive."

Destroying Confidence in U.S. Dollar

These views clash head-on with those of most business economists who believe that the preservation of confidence in the dollar is of the utmost importance. Loss of confidence in the dollar could cause a disastrous further shift in the balance of payments and a heavy run on our dwindling gold supply. This in turn would adversely affect our foreign aid programs and our whole defense system. The most important single action for the United States to take to avoid this disaster is to prove to the world that we are fiscally responsible by balancing our Federal budget. Just the taking of this step would have far-reaching beneficial psychological effects on our balance of payments problem. *The downgrading of the importance of balancing our budget reveals a serious lack of understanding of the force of psychological factors in our economy.*

The United States *balance of payments* with the rest of the world has been at a deficit since 1958. The deficit in 1960 was $3.8 billion and in the third quarter of 1961 was at an annual rate of $3 billion. Our current business recovery is tending to aggravate this problem by increasing our imports of goods at the same time that our exports are falling off. In the 1951-1960 period the aggregate deficit in this country's balance of payments has exceeded $18 billion. In this connection we have lost $5 billion in gold, and the drain is continuing. It will have to be halted if we are to avoid loss of confidence in the dollar which would be reflected in a more by foreigners to convert their dollar balances into gold.

In a recent address, Mr. M. S. Szymczak, a former governor of the Federal Reserve Board, is quoted in part as follows: "It still appears that the danger of inflation is latent in our political economy since no surpluses are likely to be generated in relatively prosperous times to offset budget deficits in slack times. **One thing is clear, our deficit in our balance of payments requires constant disciplines in our economic and financial policies at home, lest they affect the position of our dollar abroad and thus affect our international relations—political as well as economic."**

Will Government Then Subsidize Industry?

► Perhaps the most irritating practice of Administration economists to business leaders and to business economists is that of attributing inflation to price increases put into effect by managers of business. Dr. Heller constantly refers to creeping inflation hampering efforts to use the full potential of the economy in the service of our national goals. His inference is that if people like the steel leaders would hold the price line, there would be no creeping inflation. At a news conference following Dr. Heller's address to the Business Council where he made such a statement, Roger M. Blough, board chairman of the United States Steel Corporation and Chairman of the Council, said in answer to a question that "if you are thinking of price stability without cost stability you are thinking of it in terms that are unrealistic."

Who'll Pay the Piper?

Certainly it does seem to be unrealistic and by way of putting the cart before the horse to suggest that the way to curb inflation—whether it be creeping or galloping—is to ask business leaders to hold the price line while taking no action to stem increases in costs. The simple truth of the matter is that rising prices are an effect not a cause of inflation. The causes run toward huge government expenditures together with loose fiscal policies and a pro-labor policy in the matter of wage increases.

In other words, a realistic approach to the question of curbing inflation would involve an assault upon such fundamental causal factors as have been mentioned. The present tolerant attitude toward federal budgetary deficits would have to give way to a tougher policy of trimming non-essential spending out of the budget, and of raising taxes to cover increased governmental expenditures — whether they be for defense or for social welfare schemes. And with respect to wage increases, which might be granted to labor, some limitation related to a percentage of the increase *(Please turn to page 312)*

DYNAMIC SALES GROWTH by U.S. COMPANIES in OVERSEAS MARKET

— With Export Earnings Now Surpassed by Profits from Sales by Foreign Plants

By JOHN E. METCALF

- ► **The growing volume of sales by U. S. subsidiaries by area and type — Comparison of these Sales with Exports from U. S. to these same areas.**
- ► **Companies large and small seeking Profit Opportunities with Wider Profit Margins Abroad — Industries and Companies entering the race — some belatedly.**
- ► **Impact on our Balance of Payments Position — the amount of Profits being repatriated — Significance for Investors.**

WITH profit margins on domestic sales under pressure from rising labor costs, keener competition, and consumer diffidence, investors are giving more attention than ever before to the overseas sales prospects of U.S. companies. Foreign markets are growing rapidly in importance for American businessmen. Vast new sales opportunities are being created by advancing income levels in Western Europe, Japan, Australia, and elsewhere.

Two ways of selling in overseas markets can be utilized—the traditional export route, and the direct approach of setting up a foreign manufacturing subsidiary. Many factors determine the choice: transportation charges, import restrictions, size of market, relative production costs, labor supply, tax laws, and others. Often the two techniques are combined. An American company may offer its full product line in an overseas market with some items and components locally manufactured and others obtained from the United States.

Sometimes the foreign plant, instead of being a directly owned subsidiary, is an on-the-spot licensee supplied with patents and technical aid on a royalty basis. This arrangement conserves capital and reduces risk for the U.S. company while taking advantage of a local concern's firsthand market knowledge.

► Over the past decade, U.S. commercial exports have advanced from $10 billion to more than $19 billion, and this year will reach the record sum of nearly $20 billion. About $11 billion of these exports are actually manufactured goods—the balance cotton, grain, other farm products, mineral fuels, and so forth.

► Total sales of goods manufactured abroad by foreign-based subsidiaries of U.S. companies, in comparison, stood at nearly $24 billion in 1960. This was a gain of some 12% over the previous year and an increase of more than $5 billion since 1957, the first year for which these figures were collected by our Commerce Department. **The nearly 30% rise in such sales since 1957 contrasts with a gain of only about 5% for exports of U.S.-made manufactured goods over the same period.**

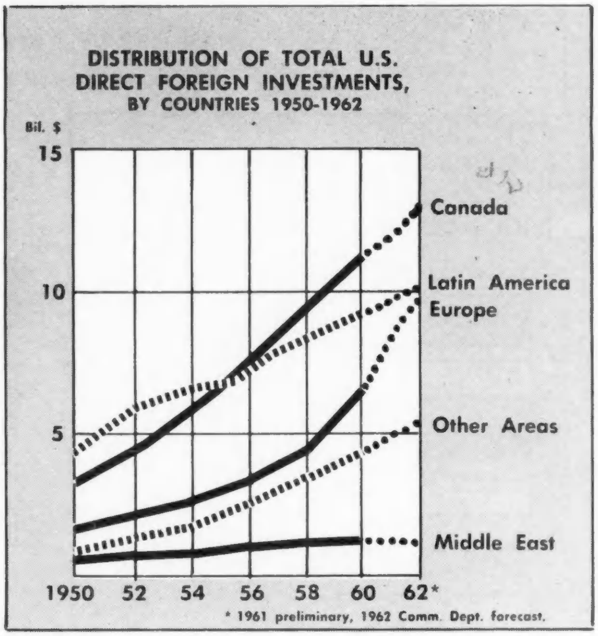
Where the Sales Are

The fast-expanding output of American-owned manufacturing firms in Europe last year overtook American-sponsored production in Canada, long the number one target for U.S. investors. U.S. investment in Europe—with its market of 335 million people—is preponderantly in manufacturing, while raw material producing ventures are equally important in sparsely populated Canada. About half of U.S. manufacturing production in Europe is in the United Kingdom, another 20% in Germany. Much of the recent gain in U.S. output in Latin America, especially in Argentina, is in the production of automobiles.

Manufactured Goods Production Abroad by U.S. Owned Companies
(Millions of Dollars)

	1957	*1959*	*1960*
All Areas, total	18,331	21,100	23,570
MARKET			
Canada	7,897	8,670	8,920
Europe	6,313	7,690	9,310
United Kingdom	3,303	4,050	4,715
Germany	1,116	1,572	1,835
Other Common Market	1,409	1,494	1,917
Latin America	2,435	2,830	3,180
Argentina	385	426	696
Brazil	659	764	879
Mexico	643	751	770
Other Areas	1,685	1,910	2,160
Australia	787	933	1,085
South Africa	300	292	305
Japan	217	240	290
PRODUCT			
Auto equip.	4,228	5,140	6,170
Machinery	3,950	4,300	4,770
Chemicals	2,411	2,950	3,290
Food products	2,457	2,810	2,920
Metal products	1,548	1,590	1,680
Paper products	881	1,170	1,260
Rubber products	968	1,040	1,170
Other mfrs.	1,889	2,100	2,310

► On a commodity basis, increased output of motor vehicles (in Europe even more than in Latin America) accounted for nearly $2 billion of the $5 billion gain in production by foreign-based U.S. subsidiaries between 1957 and 1960. But at the same time there were some further declines in direct automotive exports from the United States. Production of chemicals abroad by U.S. companies rose by nearly $1 billion during this period, and machinery output rose almost as much. In these two categories, our exports also increased. Manufactured food product sales by U.S. companies overseas last year rose by nearly $500 million over 1957, with the largest gains taking place in Europe and Latin America.



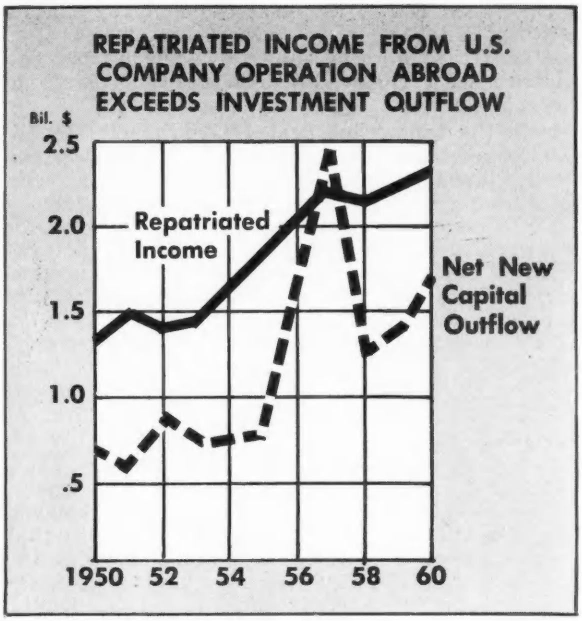
► In addition to the production of manufactured goods, U.S. mining and smelting companies abroad registered sales of some $2½ billion during 1960, an advance of 25% over 1957. Western Hemisphere operations accounted for about four-fifths of this, with most of the balance in Africa and Australia. Net sales by U.S. oil companies overseas are difficult to calculate because of the complex pattern of inter-corporate sales and vertical integration. A Commerce Department estimate placed them at $11 billion in 1957, and subsequently there has been roughly a 30% gain in production partly offset by some price slippage.

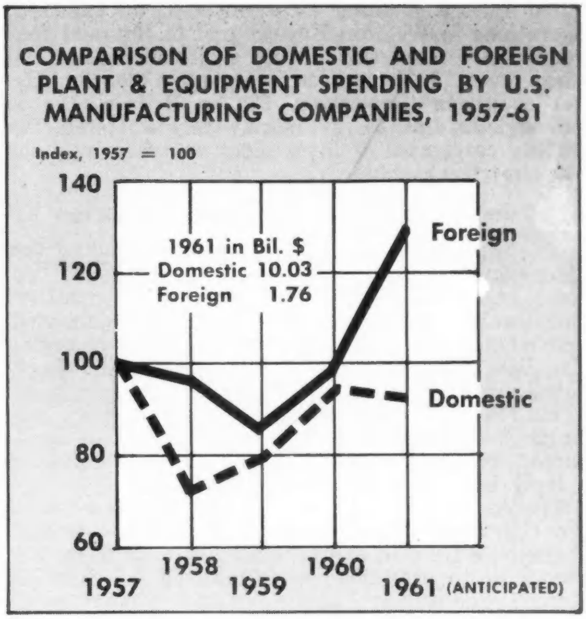
The Lure of Foreign Markets

The clear trend is toward expansion of overseas operations by U.S. companies. The reasons are not hard to find. Economic growth in a number of foreign markets is proceeding at a faster pace than here at home. The biggest attraction is resurgent Western Europe. The glowing prospects there are detailed in the just-published report of the Twentieth Century Fund on "Europe's Needs and Resources." The study estimates that by 1970 Western Europe's gross national product (GNP) will have risen 55% over the 1955 base.

Significantly, the report also predicts that consumer spending will mount even faster, thus accounting for a larger share of GNP in 1970 than at present. **In prospect, according to this study, is the "Americanization" of Europe's economy. Spending on home appliances will double by 1970, more than twice as many people will own automobiles, and per capita outlays for other durable goods and housing will also increase.**

Along the same lines, a recent forecast by Business





International for 1965 predicts a 25% gain in Europe's GNP over last year. This would amount to some $384 billion, compared with 1960 GNP for the U.S. of $504 billion. With U.S. GNP expected to rise at a somewhat slower rate while our population increases more rapidly, the gap in per capita income between the ordinary American and a typical European will start to narrow.

Europe's bold steps toward economic integration are largely responsible for the recent speed-up of industrial growth there and the high hopes for future well-being. **While the market for American exports is expected to continue to grow, greater opportunities appear likely for enterprises that establish themselves within the tariff-free trading area of the Common Market.** With Great Britain, Norway, Denmark, and others now negotiating to join the initial six of the European Economic Community, a considerably larger market area is in prospect.

On the ***other side of the world,*** in Japan, another business boom has been underway for three years. Since 1958, Japan's GNP has increased by more than 40%, and the nation is well ahead of schedule on its 10-year income doubling program. **Japan is now this country's second best customer for exports. Because of its need to conserve foreign exchange, however, Japan is anxiously seeking U.S. investment and technical licensing agreements.**

The Rush to Invest Overseas

By the end of this year, U.S. direct investment overseas is expected to total roughly $36 billion, up more than $3 billion during 1961 and triple the 1950 total. During the past two years, such investment in foreign subsidiary operations has been pushed at a more rapid pace. Recent surveys of U.S. business spending plans for 1962 made by the Commerce Department see little sign of let-up in this rush to invest overseas.

This outflow of capital has been a clear response to the profit opportunities abroad occasioned by surging economic growth. **The over-all return on direct foreign investment in recent years has averaged 12 to 16%, according to Commerce Department statisticians, well above the average return on comparable domestic operations.**

By virtue of its proximity, stability, and wealth of natural resources, Canada has attained a commanding lead as the site for U.S. foreign investment. Western Europe, however, is the area currently receiving the largest share of new capital being committed to overseas operations by American corporations. **Because of political uncertainties and the world oil surplus, U.S. investment in Latin America has slowed and in the Middle East it has come to a dead halt.** But there have been steady gains in Africa (except for the troubled Union of South Africa), the Far East, and Australia.

Manufacturing and the petroleum industry each account for about one third of the total U.S. direct investment overseas. U.S.-owned manufacturing plants are located chiefly in Western Europe, Canada, Australia, and the higher income countries of Latin America. Mining enterprises and public utilities are mostly in the Western Hemisphere.

Distribution of U.S. Direct Investment Overseas
(Billions of Dollars)

Category	*1950*	*1956*	*1960*	*1961**
Manufacturing	3.8	7.2	11.2	12.5
Petroleum	3.4	7.3	10.9	11.8
Mining	1.1	2.4	3.0	3.2
Utilities	1.4	1.7	2.5	2.6
Trade	0.7	1.4	2.4	2.9
Other	1.4	2.2	2.7	3.0
TOTAL	11.8	22.2	32.7	36.0

* Preliminary estimate.

► **The recent headlong rush by American firms to invest in Europe has been on such a scale as to prompt talk of an invasion. According to a compilation of the Chase Manhattan Bank, more than**

1,000 U.S. companies have initiated or expanded operations in Western Europe just in the past four years since formation of the Common Market. Of these, over 700 have been in the six Common Market countries themselves, 137 in Britain, 104 in Switzerland, and the rest more widely scattered. The leading categories of investment are chemicals and non-electrical machinery.

Going International — Steel, Drugs and Others

The rapid progress of recent years in ending foreign exchange restrictions and lowering tariff barriers has opened up a new era of competitive world-wide trade based on regional specialization and advanced technology. Typifying this changing situation is the view recently expressed by L. T. Johnston, President of Armco Steel Corporation: **"This industry can no longer operate as an entirely American enterprise. In my opinion, the continued success of American steel will lie in the creation of a truly international industry."**

The American steel industry is now realizing what the U.S. auto industry foresaw years ago—that to participate fully in overseas market expansion it is necessary to establish manufacturing facilities directly in the principal markets that are to be served. **In 1947 American steel exports accounted for 11% of all steel used outside the United States; by 1960 that share had shrunk to 1½%!**

Likewise, U.S. automobile exports have dropped, but Ford and General Motors occupy leading positions in the fast-growing European auto industry. American auto companies also manufacture in Canada, Australia, Latin America, and the Far East.

► Belatedly, leading U.S. steel companies are forging overseas links. Within the past year, two top producers of stainless and specialty steels—**Crucible Steel Company** and **Allegheny Ludlum**—have bought interests in European mills. **Jones & Laughlin,** which previously had no foreign ties, signed three technical assistance contracts with overseas steel producers during the first half of this year. Giant **U.S. Steel** has recently joined a group studying the feasibility of a new integrated steel mill in Rotterdam. Unlike the others, Armco Steel is no newcomer to overseas operations; it has a string of 14 manufacturing plants in Europe and South America.

► The situation varies with the industry. Pharmaceutical companies like **Pfizer, Parke Davis,** and **Merck, Sharpe & Dohme** typically service foreign markets through a combination of overseas manufacture and exports from the United States. Even **Parker Brothers,** the well known game and toy maker, has licensing agreements in 10 countries and has recently purchased a half interest in its French licensee. **American Machine & Foundry** will soon start making bowling alley equipment in Japan.

Philip Morris announced in September that it will manufacture and distribute under license in this country a leading French cigarette in exchange for the entry of one of its brands into France through the State Tobacco Monopoly there. This was another step in its long series of moves to expand overseas operations. The company has producing facilities or licensees in Germany, England, Switzerland, Canada, Australia, the Philippines, and Venezuela.

► Few if any American companies can match the number of overseas plants in **Coca-Cola's** global network. By the end of this year the company expects to have 742 foreign bottling plants in operation scattered through 109 countries. This number will compare with 1,000 Coca-Cola bottling plants in the U.S.

► In the typewriter field, international competition is keen. **Remington Rand, Royal McBee,** and **Smith-Corona** all have substantial production facilities abroad as well as in this country. As an economy move in recent years, they have tended to transfer the manufacture of low-cost portables and some standard types to their overseas subsidiaries, thus relying on imports of their foreign-made brands to serve this part of the American market. Their domestic operations now concentrate on deluxe models, electric typewriters, and more advanced types of office machines. (But in a surprising turnabout, the well known Italian office equipment firm of **Olivetti** purchased a controlling interest in the ailing **Underwood Corporation** here last year.)

It is increasingly true that new foreign investment deals being announced involve smaller and less well known U.S. manufacturing concerns that are going overseas for the first time, following the path of the giants. But the big companies are extending their positions, adding additional plants, and—as in the case of British Ford last year—buying out minority interests.

Strength or Weakness?

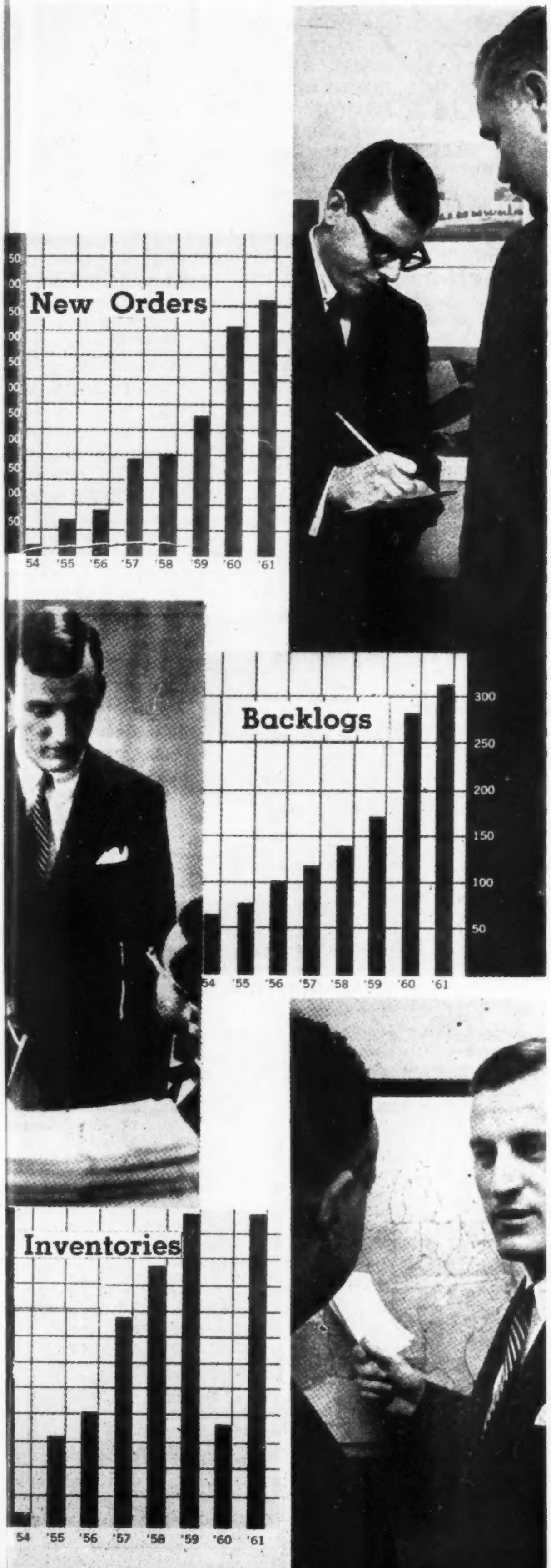
There are those who have been critical of the growing trend to invest overseas. They believe it contributes to the strain on our nation's international balance of payments. Despite our $5 billion surplus in foreign trade, we have a chronic overall deficit in our financial transactions with other countries, owing to the magnitude of our outlays for shipping and other services, tourism, investment, military spending, and foreign aid programs of grants and loans.

The critics hold that the outflow of U.S. business capital to establish foreign manufacturing subsidiaries both worsens our balance of payments and in effect exports American jobs. They point with greater alarm to instances where products like typewriters, shoes, sewing machines, and sports cars made by American companies abroad are being imported here, thus increasing our out-payments and displacing American factory workers.

The indictment is a strong one, but it overlooks many of the basic facts. **In the first place, the net outflow of private capital for direct overseas investment—now averaging about $1½ billion a year—is well covered by a return flow of earnings from these investments.**

► **Total direct foreign investment earnings are now in excess of $3½ billion annually, of which about one-third is being reinvested and the balance repatriated. Actually, a large part of U.S. direct investment outlay abroad is financed by retained earnings, depreciation and depletion allowances, and even foreign borrowing.**

► **Thus, when the foreign investment account is considered as a whole, with current income offset against capital outflow, it becomes obvious that the net effect is the bolstering of our international payments by close to $1 billion a year. Furthermore, this is only a balancing of the dollar totals without making allowance for** *(Please turn to page 312)*



REALISTIC GAUGE TO 1962 BUSINESS ACTIVITY

Evaluating . . .

☆ New Orders
☆ Backlogs
☆ and Inventories

By WARD GATES

— Where Position for Individual Companies and Industries Is Strengthening — Where Slipping — Indicating Significant Trends Looking to the Year Ahead.

NDUSTRY'S order backlog, new order and inventory position at the moment is one of the most encouraging aspects of the current business situation although it is far from conclusive. True, the figures don't look at all sensational, but this year at least they are on the uptrend, whereas a year ago they were declining.

Last year at this time, when sales themselves were slipping, diminishing order backlogs gave no hope of an early turn. This year, the September figures (the latest reported) paint a somewhat different picture. On the surface, business was still disappointing in September, but this torpidity can be attributed largely to the auto strikes. **What is significant is that, despite little progress in shipments over the August level, backlogs increased as new orders flowed into industry. New orders, in fact, were 6% ahead of the year-earlier totals, built up especially by good orders for non-electrical machinery and primary metals.**

This type of ordering suggests that businessmen are again anticipating better days and are willing to lay in the machinery and raw materials that will mean higher production later on. This increase was scored with virtually no assistance from the auto industry, which can usually be counted on to place

heavy machinery orders at this time of year.

Businessmen Now Accumulating Inventories

None of this means that a new boom is necessarily in the making. It does mean, however, that businessmen appear far more sanguine about the future today than they were only six months ago. Proof of this attitude shows up in the inventory figures. For although sales slowed noticeably in late summer, companies continued to add to their stocks, seemingly in utter disregard of the sales trends. What is more, the situation can't be blamed on involuntary inventory accumulation since the seasonally adjusted purchases of new materials in September were well ahead of August as well as the preceding September. Finished goods were also slightly ahead of a year ago, but goods in process were unchanged. The increased new purchases, therefore, indicate that businessmen were striving hard to build up finished goods on the shelves to meet a demand they are sure is coming.

Of course, businessmen may be overoptimistic and doomed again to disappointment, but at the moment it doesn't appear that way. **Evidence for this conclusion comes from a study of the new business cycle figures published by the Department of Commerce. These show that of the many business indicators that consistently lead business activity on the upside, none has yet turned downward.**

Moreover, if the past is any guide, we are still at least six months short of the earliest probable downturn. This means that the economy is almost definitely in a major upward move. The upswing may not be of boom proportions, but the direction by itself is encouraging.

The most reassuring signs stem from the recent noticeable upturn in retail sales—especially for automobiles and durable goods—and from authoritative estimates that business will lift its capital spending budget by at least 4% in 1962. Overall spending in the first half may be no higher than a year ago, but the trend will be upward and the trend is really more important than the absolute figures.

Aircraft and Defense Industry Backlogs

For individual industries and companies, of course, the backlog picture varies considerably. In part, the variations stem from different levels of participation in defense business. But there is also the fact that some companies had eaten so deeply into backlogs during the recession that even with a new order buildup backlogs are still below year-ago levels.

In the defense area, backlogs sometimes have great meaning for individual companies, but the overall economic significance is slight. **Douglas Air-**

Order Backlog Trends For Representative Companies

	Order Backlog (Millions): Latest Reported†	Order Backlog (Millions): A Year Ago†	1960: Net Sales	1960: Net Earnings Per Share	1st 9 Months 1960: Net Sales (Mil.)	1st 9 Months 1960: Earnings Per Share	1st 9 Months 1961: Net Sales (Mil.)	1st 9 Months 1961: Earnings Per Share	Indic. 1961 Div. *	Recent Price	Div. Yield %
AIRCRAFT:											
Avco Corp.	$ 236	$ 150	$ 322.7	$.97	$ 240.0	$.71	$ 233.5	$.85	$.60	25	2.4%
Boeing Co.	1,975	2,209[1]	1,554.5	3.07	1,202.2	2.03	1,309.2	3.27	2.00	48	4.1
Douglas Aircraft	784	1,154	1,174.0	d5.09	859.0	d5.73	616.2	1.18	—	35	—
General Dynamics	2,000	2,000[1]	1,987.7	d2.71	1,442.7	d2.52	1,555.6	d3.95	—	27	—
Grumman Aircraft	237[2]	285	'325.5	3.27	240.6	2.54	231.4	2.00	1.50	37	4.0
Lockheed Aircraft	1,700	1,387	1,332.2	d5.82	962.3	d6.84	995.4	2.20	1.20	46	2.6
North American Aviation	931	873	964.1	2.87	·965.9[7]	2.87[7]	1,265.4[7]	3.38[7]	2.00	51	3.9
Northrop Corp.	293	309	233.6	4.22	267.4	4.22	233.6	4.22	1.60	59	2.7
Republic Aviation	609	738	215.2	3.29	115.2	1.10	256.7	5.21	2.00	50	4.0
Rohr Aircraft	150	150	193.2[8]	d1.40[8]	193.2[8]	d1.40[8]	168.1[8]	2.74[8]	1.00	23	4.3
ELECTRONICS & INSTRUMENT:											
Collins Radio	157	190	190.8[8]	3.04[8]	190.5[8]	3.02[8]	215.7[8]	1.15[8]	—	34	—
Fairchild Camera & Instrum.	35	28	67.9	1.54[6]	49.4	1.20[6]	67.2	1.51[6]	.25[6]	75[6]	.3[6]
General Precision & Equipment	188	166	244.4	3.46	120.7[9]	1.48[9]	118.9[9]	1.50[9]	1.20	60	2.0
International Tel. & Tel.	681	576	811.4	1.95	592.8	1.35	623.6	1.48	1.00	57	1.7
Lear Corp.	65	78[1]	90.9	1.03	68.2	.71	70.6	.78	.40	22	1.8
Magnavox Co.	120	100	124.8	.92	79.8	.50	89.2	.61	.50	42	1.1
Martin-Marietta Corp.	1,000	N.A.	—	—	463.0[10]	N.A.	565.4[10]	N.A.	1.00	27	3.7
Raytheon Co.	360[3]	320[4]	539.9	2.09	402.8	1.58	407.1	1.18	3% Stk.	37	—
Sperry-Rand	645[3]	605[3]	1,173.0	.95	561.3[9]	.41[9]	547.1[9]	.32[9]	4% Stk.	24	—
MACHINERY:											
American Machine & Foundry	155	240	292.7	3.06	250.8	1.06	379.8	1.09	.90	40	2.2
Bliss (E. W.)	56	32	86.2	1.40	62.7	.95	57.5	1.38	1.00	27	3.7
Bucyrus-Erie	37.3	18.6	63.6	d5.33	51.7	.001	56.5	86	—	18	—
Cooper-Bessemer	23	22	68.4	2.77	50.4	2.24	45.3	1.60	1.60	34	4.7
Ex-Cell-O Corp.	61	59	137.6	2.23	104.8	1.77	104.4	1.97	1.50	42	3.5
F.M.C. Corp.	146	90	363.8	2.98	275.1	2.34	315.5	2.61	1.40	90	1.5
Mesta Machine	60	65[5]	62.0	2.85	23.6[9]	1.22[9]	N.A	1.03[9]	2.50	49	5.1
Worthington Corp.	77	62	194.4	4.42	143.0	3.01	137.7	2.31	2.50	53	4.7

*—Based on latest dividend rate.
†—Approximate.
d—Deficit.
N.A.—Not available.

1—March 31, 1961.
2—Over $250 million additional. under negotiation.
3—Gov't. backlog only.
4—June 30, 1961.
5—Jan. 1, 1961.

6—New stock.
7—Year ended Sept. 30.
8—Year ended July 31.
9—1st 6 months.
10—Pro-forma, 1st 6 months.

Order Backlog Trends For Representative Companies—(Continued)

	Order Backlog		1960		1st 9 Months: 1960		1st 9 Months: 1961				
	Latest Reported†	A Year Ago†	Net Sales	Net Earnings Per Share	Net Sales (Mil.)	Earnings Per Share	Net Sales (Mil.)	Earnings Per Share	Indic. 1961 Div. *	Recent Price	Div. Yield %
RAILWAY EQUIPMENT:											
American Brake Shoe	$34	$31[1]	$164.5	$3.48	$123.0	$2.21	$116.7	$1.69	$2.40	45	5.3%
Baldwin-Lima-Hamilton	71	70	122.8	.31	99.0	.28	81.2	.21	.40	15	2.6
New York Air Brake	15	16	40.4	2.30	31.2	1.75	30.3	1.39	1.60	38	4.2
SHIPBUILDING:											
Bath Iron Works	110	74	53.4	5.82	28.9[2]	2.96	22.9[2]	2.74	3.00	55	5.4
Merritt-Chapman & Scott	279	463	355.6	d5.11	281.5	d2.76	238.5	.68	—	10	—
Newport News Shipbuilding & D.D.	558	375[1]	195.3	4.89	90.4[2]	2.79[2]	101.5[2]	2.34[2]	2.40	55	4.3
New York Shipbuilding	111	212	112.0	d13.25	88.1	N.A.	67.3	N.A.	—	11	—
OTHER INDUSTRIES:											
Allis-Chalmers	197	191[1]	530.0	1.12	412.3	.96	376.8	.32	1.00	21	4.7
American Steel Foundry	16	25	120.1[3]	2.69[3]	120.1[3]	2.69[3]	106.7[3]	2.10[3]	1.60	34	4.7
Blaw-Knox	119	143	192.8	2.21	136.0	2.00	128.2	1.79	1.40	33	4.2
Combustion Engineering	380	334	261.9	1.75	178.2	1.07	210.1	1.26	1.20	30	4.0
Fluor Corp.	122	99	84.8	.99	84.8	.99	130.0[4]	2.75	5% Stk.	29	—
Koppers Co.	159	137	302.5	3.06	230.5	2.59	200.7	1.62	2.00	44	4.5
Otis Elevator	148	169	212.3	2.95	N.A.	1.92	N.A.	1.64	1.50	77	1.9
Raymond International	124	137	112.5	.55	82.2	.63	90.2	d.75	[5]	13	—
Rockwell-Standard Corp.	95	30	248.3	2.41	195.3	1.76	161.5	1.28	2.00	35	5.7

*—Based on latest dividend rate.
N.A.—Not available.
†—Approximate.
d—Deficit.
1—June 30, 1961.
2—1st 6 months.
3—Year ended Sept. 30.
4—Estimated for year ending 10/31/61.
5—Dividend omitted 10/24/1961.

craft, for example, is beginning to run out of aircraft contracts for the military, and as a result backlogs are down substantially to only $784 million from $1.2 billion a year ago. But this is Douglas' private misfortune. The defense contracts that have been placed have just gone elsewhere and are stimulating the economy even though Douglas may have some uncomfortable moments.

In the same industry, by contrast, **Garret Corp.** had a June 30 backlog of $103 million compared to only $93 million a year earlier, and **Avco** has enjoyed a sensational jump to $236 million from $150 million a year earlier. What has happened, of course, is that the whole emphasis in the defense program has changed to missiles and electronics, leaving the airplane companies in the lurch. **Boeing** is in slightly better shape because of the heavy demand for its jet tankers and military transports. Hence, its backlog has not been drawn down as much, but it is down nevertheless.

Where companies are firmly entrenched, or at least primarily engaged, in missiles and electronics, however, the situation is a happier one. **Lockheed's** backlogs have been swollen by orders for the Polaris missile, and look highly attractive at $1.7 billion compared to only $1.3 billion a year ago. **North American Aviation** is in a similar spot. The company is the leading producer of missile engines, a prime missile contractor and a front-runner in missile electronics. Backlog, reflecting this broad diversification, is therefore on the upswing, amounting now to $931 million against $873 million in October of 1960.

In an allied but slightly different area of the defense program, **International Telephone & Telegraph** is also doing well. The company is now one of the major factors in defense communications and has recently landed some highly lucrative and long-lived contracts, building up backlogs to $681 million from $576 million a year ago. This new face to IT&T is a welcome sign, and indicates that the changes sought by President Geneen should bear fruit in the form of substantially higher earnings during the next few years.

For the rest of the defense picture, a glance through the accompanying tables is revealing enough. The aircraft producers, such as **Grumman, McDonnell** and **Douglas** have seen their backlogs diminish. The missile and electronics oriented companies such as **Martin-Marietta, General Dynamics, Raytheon** and **Sperry-Rand** are enjoying rising backlogs and bid fair to increase them further before long.

Capital Spending Still Lags Among Steel Industry Suppliers, Railroad Equipment

Outside the defense industries current backlogs probably reflect the depressed level of capital spending during the last twelve months and the refilling of pipelines more than any highly optimistic present business planning. New orders have not yet flowed in fast enough, in most cases, to replenish the backlog positions that were drawn down during the recession.

Blaw-Knox provides a good illustration of such a picture. The company's backlog position consists primarily of rolling mills for the steel industry, as well as related products for use in conjunction with the mills. This type of business is typically long lead. It takes many months to build rolling mills and make deliveries. Hence, even though backlogs are down from a year ago, the $119 million still on the books will provide substantial business for the company for some time *(Please turn to page 316)*

Inside Washington

BY "VERITAS"

HOUSE speakership, now that Speaker Sam Rayburn of Texas is dead, is now the chief topic of speculation and conversation here. As of the moment, House Majority Leader John W. McCormack of Massachusetts, who acted as Speaker *pro tem* in Rayburn's few weeks of absence during the past Session, seems to have the "inside track" insofar as his Democratic colleagues are concerned. However, great forces—including the White House—are even now working against McCormack's election to the most powerful post on Capitol Hill, perhaps second only in Government affairs to that of the man in the White House. It shapes up into a possible Donnybrook that could completely shatter Democratic unity in the House wing of the Capitol. Dark horses include Reps. Wilbur Mills (D., Ark.), Hale Boggs (D., La.), Richard Bolling (D., Mo.), and Francis Walter (D., Pa.), Chairman of Un-American Activities Committee. He plans to retire at the end of his present term and it is within the realm of probability that he will be accorded the honor of Speaker in a sort of sentimental gesture.

WASHINGTON SEES:

Khrushchev is definitely in trouble, having difficulty in holding together his Red empire. His woes do not necessarily stem from Red China, defecting Albania or Tito's Yugoslavia, but lie in his own back yard, according to Russian experts in the nation's Capital City.

Pointed to are Khrushchev's recent disgracing of two of the old Bolsheviks — Molotov and Kaganovich, by now "read out" of the Communist Party; a fate worse than the firing squad in Russia, plus the brazen confession that the late L. P. Beria, head of the dread Russian secret police, was lured to his murder in the Kremlin, not executed after trial as previously claimed.

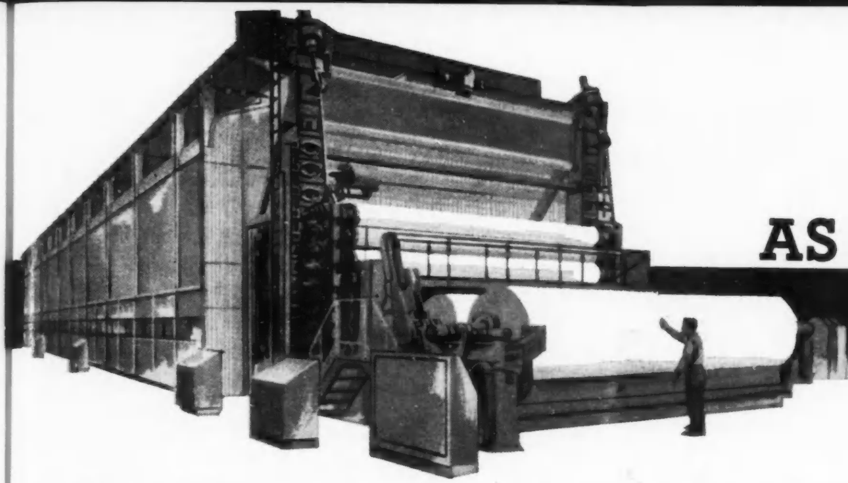
All of this indicates Mr. K. is worried about his own hold on the Party, that he has, in crude fashion, thrown out the hint that he is fully capable of returning to the "cult of individualism" for which he so severely condemned the late Stalin.

K. is seen as sincere in his desire to avoid a nuclear war that would wipe out Russia's industrial progress of the last 20 to 30 years almost in the twinkling of an eye — genuinely wants to keep the peace without military operations, hoping to gain Red ends through intimidation, infiltration and subversion.

Strong elements in his own bailiwick differ with him. He has had to use threats and warnings to control them. How long he can maintain his position of absolute power is now a moot question.

DISCOUNTED here are press reports that Cuba's Fidel Castro recently spent several days in Mexico in secret conference with Communist and other left-wingers of that country. First, Diplomatic and State Department sources believe that Khrushchev prefers to leave the Mexican agitation to his own agents there; second, Castro's prestige is definitely waning in Latin countries, emphasizing Venezuela's recent severance of Diplomatic relations with Cuba. Here Venezuela is regarded as the real leader of the Latin American nations in international politics. As for the Ecuadorean revolt, which put the leftish Dr. Carlos J. Arosemana in the President's chair, good sources assert that Arosemana will "play ball" with the United States because Ecuador has too much at stake in the $20 billion Alliance for Progress program promised by the United States. Elsewhere on the Latin front, trouble is expected in Panama—not an armed revolt, but a demand for trebled rental of the Canal Zone.

REGULATORY Agencies, especially Federal Trade Commission and Interstate Commerce Commission, are under fire—face stiff Congressional inquiries next year. FTC is definitely in Capitol Hill's dog house for its too-strict interpretation of advertising practices, while the ICC begins to get in bad odor for the excessive time it takes in making decisions and handing down rulings—especially in rail merger cases.



AS WE GO TO PRESS

Lobby "Population" Mounts In Nation's Capital. Since President Kennedy's recent demand that Federal agencies curtail their employment in the interest of a possibly balanced budget, special interest groups of the liberal persuasion have been expanding their Washington forces to "work on Congress." Largest lobby here is that of the AFL-CIO, presently not expanding, but with plans to bring in men and women from the field in great numbers as the legislators get down to business next January.

Most actively lobbied legislation, perhaps in the order named, will be continuance and enlargement of present unemployment compensation, plus Federal financial support of a program to retrain those workers displaced by automation; medical care for the aged through the Social Security system; Federal monetary assistance to the States for classroom construction and boost of teachers' salaries, and vast extension of Federal activities in the field of electric power development; extension of the Reciprocal Trade Agreements Act and U. S. participation in the European Common Market. (The President is the most active "lobbyist" in this area now.)

Business lobbies will not be inactive, nor will those of the American Medical Association or the opponents of liberal foreign trade policies. The AMA will continue its fight on Federal medical care of the aged, while opponents of Reciprocal Trade will be in the forefront for their cause. Utilities are prepared to resist more expansion of public power programs, as the National Rural Electric Cooperative Association musters forces to give public power a boost.

These are but a few, but they will be important issues early next year. Both sides to all of the controversies are even now building their forces, acquiring more Washington office space and adding to their public relations staffs. Others of lesser consequence are on the expansion bandwagon too. Perhaps all of it will be overdone to the extent that the legislators will have little opportunity to give needed attention to their functional duties as the special interest groups parade across their office door sills.

Despite Increased Auto-Truck Registration, State Highway-User Tax Revenues Advance At Even Pace. Bureau of Public Roads has estimated that State motor tax revenues in 1961 will advance only 4% over the 1960 take; this in face of a larger percentagewise increase in auto-truck registrations and gasoline tax hikes in several of the States. Experts are not ready to assign a definite reason for the condition, but some few will — from the sides of their mouths — declare that automotive excises are nearing the point of diminishing returns, that the motor vehicle operator is beginning to resist the ease with which States and the Federal government collect taxes at the gasoline pump and at the auto factory.

Presidential Railroad Commission In Time Jam. With hearing phase of its program completed on Nov. 13 and a December 1 deadline (with permitted 90-day extension) the Commission now seems to doubt that the extension will be adequate to properly digest many millions of words of oral testimony, 319 charts and exhibits submitted by labor and management, and studies now being received from its own staff and outside experts. If the extension does not prove adequate to the Commission's needs, then both rail labor

and management must agree to continuation of the efforts to "come up with the answers." If this eventuates, and there are indications, even now, that such a situation is "inevitable," it is doubted the unions will assent to such extension — may even embark on a series of threatened strikes. Carriers, however, will agree to a continuance.

Tennessee Valley Authority To Be Nucleus In Argument For Nation-Wide Public Power Grid? The answer is in the affirmative if we listen to the public power advocates within the Administration, Congress and outside. TVA, originally planned as a hydro development and "yardstick" to gage electric rates by private utilities, is now producing 72% of its power from steam and has plans for new steam plants that will boost the ratio to around 90%. In the meanwhile, public power supporters plan to lobby for a measure (not yet presented to Congress) that would bring all private electric systems into a grid dominated by TVA and Interior Dept.'s Bonneville Power Administration, of Oregon. Acquisition of the private companies would be by condemnation and the issuance of long-term, low-interest bonds in payment. Back of the contemplated movement are the National Rural Electric Cooperative Association, the American Public Power Association — both with "populous" Washington lobbies — as well as some of the President's left-wing advisers.

Does White House Look Toward A Balanced 1963 Budget? "Yes," according to "leaks" from Budget Bureau; "No," according to equally reliable sources. Educated guesses around Washington are for a $5 billion deficit. In the meanwhile, organized labor and other forces here are urging a deficit budget, with labor pressing for the deficit, primarily to support its demands for liberal unemployment and retraining benefits for those persons displaced by automation, plus liberal appropriations for Federal aid to education. AFL-CIO President George Meany, influential with the President, is arguing that a firm commitment to a balanced budget could prove "embarrassing" to the Administration if unemployment does not drop rapidly. And, according to the labor chieftain, additional government expenditures or a tax adjustment (upward) will be necessary.

Imports Of Japanese Textiles Slated For Small Decline. Top trade experts of Nippon predict that less textiles will be shipped to the United States in the coming year, at least during the first six months. Part of the drop will be insignificant, caused by shipments this year as Jap exporters race to beat a U. S. quota deadline. Another factor — muchly desired by the domestic textile industry — is the recent successful Japanese maneuver at the GATT meeting in Switzerland which persuaded Western European nations to absorb a greater share of Nipponese textile output. U. S. textile industry remains skeptical, will lobby for even tighter quotas as the legislators wrestle with a proposed, and liberalized, extension of the Reciprocal Trade Agreements Act which expires June 30.

Look For Increased Drafts For The Armed Forces. Plain fact is that too high a percentage of draftees are being rejected because of mental and physical deficiencies. The solution lies in calling up more men to fill desired quotas. In the meanwhile, voluntary enlistments in the services are continuing at a brisk pace, but with the same percentage of deficiencies found among the selectees. It is a problem of concern to Defense Department, the White House and to educators who see the possibility that our educational system has failed.

Business Still Lags In The Political Arena. This is the verdict of the National Association of Manufacturers, the National Chamber of Commerce and numerous Trade Associations. All of them declare that Organized Labor and other "liberal" groups are "running rings around business" in the area of politics. Labor and the liberal organizations really work at politics from the precinct level — at getting the voters to register, and at educating them on issues and finally, but not least, getting them to the polls. Business groups take a too lofty approach to the problem — spend too much time in seminars, too little time with the grubby, grimy work of getting the citizens to register, fully acquainting them with issues, and transporting them to the polls on election day.

Appraising Prospects For

BLUE CHIPS & CYCLICAL STOCKS

By EDWARD R. HEATH

IS "Consolidated Metals and Machinery" a good stock? The reply to that question is likely to depend, not only upon who answers it, but also upon when is is asked. For the name "Consolidated Metals" is here used to typify the cyclical companies, mostly manufacturers of heavy capital goods, whose fortunes fluctuate widely with the economic climate. Thus, near the top of a cycle, Consolidated would be likely to generate enthusiasm and, at the bottom, it would probably be viewed only with pessimism.

Now, to be sure, the old designation, "feast-or-famine", as applied to steel, railroad equipment, construction machinery and similar industries, does present an exaggerated picture. While some of these activities can prosper only during boom periods, few of them literally starve during recessions. However, to many stockholders acclimated to constant progress, the thought of enduring an extended period during which earnings slip badly from the previous peak is intolerable. Accordingly, they tend to strictly avoid all stocks even slightly tainted as cyclical and to confine their selections to the recognized blue chips. Other investors see in the cyclicals some advantages which compensate for their inherent instability. To them, such issues appear attractive at certain stages of the cycle, if not for permanent holding.

But this is an issue that cannot be resolved in terms of generalities. Fundamentally, both blue chips and cyclicals must be considered primarily as individual issues based on their merits in each instance.

Cyclicals Become Less So

In the present discussion the term "cyclicals" is taken to mean not only a few narrowly restricted capital goods issues but also a broader group including some high quality stocks that are only moderately vulnerable to economic ups and downs.

Under modern conditions, a number of cyclicals

Blue Chip Stocks

	1960 Net Per Share	1st 9 Months 1960 Net Sales (Mil.)	1st 9 Months 1960 Net Per Share	1st 9 Months 1961 Net Sales (Mil.)	1st 9 Months 1961 Net Per Share	Recent Price	Indic. 1961 Div. Per Share	Div. Yield	Comments
AMER. HOME PROD. 1961 Price Range – 89⅝-47⅝ 1960 W.C. (mil.) – $89.2	$2.09	$ N.A.	$1.60	$ N.A.	$1.64	81	$1.54	1.9%	Rapid growth of this outstanding manufacturer of drugs and toiletries should continue and stock is still attractive long term investment. A1
AMER. TEL. & TEL. 1961 Price Range – 130¼-103⅛ 1960 W.C. (mil.) $845.4	5.53	7,747.2[1]	5.45[1]	8,228.3[1]	5.49[1]	128	3.60	2.8	Leading position in communications field as well as stake in electronics lends long appeal to this top grade blue chip. A1
BORDEN CO. 1961 Price Range – 75½-55⅜ 1960 W.C. (mil.) – $126.2	2.71	738.4	2.10	758.4	2.16	75	1.50	2.0	Slow earnings growth is likely to continue, aided by moves into chemical field, but stock is not cheap here. A2
COCA-COLA 1961 Price Range – 107½-77¾ 1960 W.C. (mil.) – $140.0	2.86	N.A.	1.33[4]	264.4[4]	1.43[4]	107	2.40	2.2	Likely to benefit from expansion into other areas of the food field, but current price discounts much of good prospects. A1
CONTINENTAL CAN 1961 Price Range – 48⅜-34⅞ 1960 W.C. (mil.) – $162.2	2.21	864.4	1.89	881.7	2.44	47	1.80	3.7	Better profit margins in certain product lines indicate earnings gains over the intermediate term. B3
CORN PRODUCTS 1961 Price Range – 62-45⅝ 1960 W.C. (mil.) – $108.8	1.75	519.2	1.26	549.6	1.34	62	1.20	1.9	Increasing emphasis on consumer products is expected to help earnings but stock looks adequately priced. A1
DOW CHEMICAL 1961 Price Range – 85⅜-70 1960 W.C. (mil.) – $109.7	3.08	208.3[3]	.67[3]	210.0[3]	.61[3]	75	1.60	2.0	With earnings expected to score a recovery in the current fiscal year, Dow still represents excellent value. A3
DU PONT 1961 Price Range – 251¼-185½ 1960 W.C. (mil.) – $713.5	8.09	1,648.0	6.28	1,650.0	6.11	250	6.75	2.7	New products should add considerably to earnings but recent rise in price has discounted much of this. A3
EASTMAN KODAK 1961 Price Range – 119¾-97½ 1960 W.C. (mil.) – $370.7	3.30	646.9[5]	2.27[5]	649.2[5]	2.16[5]	111	2.25	2.0	Stiffening competition has flattened recent earnings uptrend. Future growth likely to be slow. A2
GENERAL FOODS 1961 Price Range – 107¾-68⅝ 1960 W.C. (mil.) – $232.4	2.69	560.1[4]	1.33[4]	562.6[4]	1.40[4]	104	1.00	.9	Company should continue to be one of the fastest growing factors in the food industry. Stock still attractive for long term. A1
INTERNATIONAL BUS. MACH. 1961 Price Range – 607-447 1960 W.C. (mil.) – $434.5	6.12	1,040.5	4.34	1,244.5	5.55	595	2.40	.4	IBM is leader in the computer and office machine field. Stock selling at high price-earnings rate. A1
MINN. HONEYWELL REG. 1961 Price Range – 170¾-126½ 1960 W.C. (mil.) – $137.3	3.74	312.8	2.62	333.8	2.28	136	2.00	1.4	Earnings are being heavily penalized by development costs of data processing equipment. Stock appears to have limited appeal here. B4
MINN. MINING & MFG. 1961 Price Range – 87⅝-70⅛ 1960 W.C. (mil.) $146.5	1.38	403.1	.98	448.1	1.04	74	.70	.9	Rate of growth of this outstanding enterprise appears to be slowing down but stock is still good long term investment. A1
PENNEY (J. C.) CO. 1961 Price Range – 58½-37½ 1960 W.C. (mil.) – $230.8	1.82	609.3[4]	.67[4]	634.1[4]	.73[4]	58	1.50	2.5	Relatively unexciting earnings trend likely to continue in the face of increasing competition from discount stores. A2
REYNOLDS (R. J.) TOB. 1961 Price Range – 89¼-35⅝ 1960 W.C. (mil.) – $497.7	2.61	1,052.1	1.88	1,143.3	2.20	85	1.50	1.7	With earnings expected to reach another new peak this year, company has the most consistent growth record in the industry. A1
SEARS ROEBUCK & CO. 1961 Price Range – 94¾-54 1960 W.C. (mil.) – $1,262.7	2.55	1,904.1[4]	.97[4]	1,929.8[4]	1.00[4]	93	1.40	1.5	Earnings continuing to rise and company is of highest quality, but stock looks rather high at current advanced levels. A1
STAND. OIL OF N. J. 1961 Price Range – 49¾-40¾ 1960 W.C. (mil.) – $1,758.4	3.18	6,562.0	2.31	6,906.0	2.63	46	2.25	4.8	Profits are showing improvement this year but in view of continuing problems, stock is attractive mainly for income. A3
TEXACO 1961 Price Range – 59⅝-41½ 1960 W.C. (mil.) – $681.8	3.17	N.A.	2.30	N.A.	2.50	54	1.70	3.1	Internal improvements have enhanced recent earnings performance and stock is still sound long term commitment in the oil group. A1
UNION CARBIDE 1961 Price Range – 144-116 1960 W.C. (mil.) – $442.8	5.25	1,157.5	3.90	1,144.4	3.47	130	3.60	2.7	Despite some overcapacity, company's longer range prospects are favorable. Stock a worthwhile holding in chemicals. A3

N.A.—Not available.
W.C.—Working capital.

[1]—12 months ended Aug. 31.
[2]—40 weeks ended Oct. 8.
[3]—1st quar. ended Aug. 31.
[4]—6 months.
[5]—36 months ended Sept. 3.

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

Cyclical Stocks

	1960 Net Per Share	1st 9 Months 1960 Net Sales (Mil.)	1st 9 Months 1960 Net Per Share	1st 9 Months 1961 Net Sales (Mil.)	1st 9 Months 1961 Net Per Share	Recent Price	Indic. 1961 Div. Per Share	Div. Yield	Comments
AIR REDUCTION 1961 Price Range – 84-62½ 1960 W.C. (mil.) – $44.6	$3.70	$172.8	$3.03	$166.5	$2.16	64	$2.50	3.9%	Recent earnings trend flat but growth potential in industrial gases lends long term appeal to the shares. B3
ALUMINUM CO. OF AMER. 1961 Price Range – 81½-57 1960 W.C. (mil.) – $303.8	1.76	657.5	1.33	621.8	1.29	61	1.20	1.9	Difficulties arising from excess aluminum capacity make significant earnings gains unlikely for some time. B4
AMER. SMELT. & REFIN. 1961 Price Range – 72¼-54¾ 1960 W.C. (mil.) – $134.8	4.07	354.1	3.06	339.8	2.13	64	2.00	3.1	Earnings next year are likely to rebound from this year's depressed $2.90 a share, but current price of stock already discounts much of these expectations. C3
ANACONDA 1961 Price Range – 65-44 1960 W.C. (mil.) – $218.0	4.30	N.A.	1.21	N.A.	.52	51	2.50	4.9	Operations still heavily dependent on peaceful labor relations but if strikes can be avoided, earnings could score a good gain next year.
BETHLEHEM STEEL 1961 Price Range – 49⅜-39⅛ 1960 W.C. (mil.) – $656.9	2.52	1,727.8	1.96	1,471.7	1.38	41	2.40	5.8	Dividend is not entirely secure even though steel operations should be at good level over next few months. B3
CATERPILLAR TRACTOR 1961 Price Range – 41⅞-30⅛ 1960 W.C. (mil.) – $173.2	1.54	571.3	1.18	574.2	1.59	38	1.00	2.6	Earnings should show a good increase this year and another gain is possible for 1962 with foreign sales expected to be well maintained. B1
DEERE & CO. 1961 Price Range – 62⅞-48½ 1960 (mil.) – $276.7	2.57	339.0	1.33	403.7	3.46	53	2.00	3.7	Sales of farm equipment have picked up and fiscal 1962 earnings may approach $5.00 per share. Stock is well worth holding. C3
FORD MOTOR 1961 Price Range – 113⅞-63¾ 1960 W.C. (mil.) – $637.7	7.79	5,034.7	5.76	4,843.4	5.26	109	3.30	3.0	Apparent success of 1962 auto models points to continued progress for this exceedingly well managed company. 1962 earnings may set new record. A1
GENERAL ELECTRIC 1961 Price Range – 79⅜-60½ 1960 W.C. (mil.) – $772.9	2.25	3,053.2	1.91	3,138.0	1.70	78	2.00	2.5	Stock has long pull attraction based on the company's broad representation in all areas of electronics. A3
GENERAL MOTORS 1961 Price Range – 54-40⅝ 1960 W.C. (mil.) – $2,799.3	3.35	9,309.7	2.45	7,780.1	1.83	52	2.50	4.7	Wide diversity of products has removed much of the cyclical nature of this outstanding enterprise. Disposition of GM stock held by duPont clouds near term market prospects.
GOODRICH (B. F.) 1961 Price Range – 77¾-51½ 1960 W.C. (mil.) – $285.9	3.33	587.6	2.68	559.6	2.53	77	2.20	2.8	Tire volume should rise but price weakness in several plastics products likely to hamper earnings progress. Stock has only moderate appeal here. B2
INGERSOLL RAND 1961 Price Range – 94⅜-71⅞ 1960 W.C. (mil.) – $112.1	4.09	N.A.	3.03	N.A.	2.86	84	4.00	4.7	Leadership in heavy equipment field and prospects of moderately rising earnings make generous dividend relatively safe. B2
INTERNATIONAL NICKEL 1961 Price Range – 85-58¼ 1960 W.C. (mil.) – $228.0	2.76	383.5	2.15	382.8	1.98	79	1.60	2.0	Earnings still dependent to some extent on metal prices but expanding demand for nickel brightens long term prospects. A1
INTERNATIONAL PAPER 1961 Price Range – 38¼-29⅝ 1960 W.C. (mil.) – $216.2	1.74	768.8	1.31	770.5	1.24	36	1.05	2.9	With paper prices firming, the stock of this leading paper producer has cyclical appeal here. A2
JOHNS-MANVILLE 1961 Price Range – 74⅞-55¾ 1960 W.C. (mil.) – $102.9	3.12	273.9	2.49	279.7	2.12	59	2.00	3.3	Construction activity improving slowly and company's near-term prospects are not exciting. A2
NATIONAL LEAD 1961 Price Range – 95⅝-78 1960 W.C. (mil.) – $147.6	4.10	401.4	3.07	379.3	2.95	93	3.25	3.4	Serves wide diversity of industries. Company's moderate growth and stable earnings trend should continue. A2
PULLMAN 1961 Price Range – 42-32¾ 1960 W.C. (mil.) – $111.2	2.63	323.1	2.14	262.3	1.00	37	2.00	5.4	Railroad equipment business still important. Unless earnings show improvement next year, dividend might be in jeopardy. B4
U. S. STEEL 1961 Price Range – 91¼-75¼ 1960 W.C. (mil.) – $985.4	516	2,975.2	4.20	2,439.1	2.29	77	3.00	3.8	Still the undisputed industry leader, company should benefit from improved level of steel production over next few months. A3
WESTINGHOUSE ELECTRIC 1961 Price Range – 50-38 1960 W.C. (mil.) – $772.3	2.22	1,457.2	1.71	1,387.5	.67	39	1.20	3.0	Long range prospects are favorable, out near term is clouded by price weakness in several lines. A4

N.A.—Not available. W.C.—Working capital. [1]—Plus stock.

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

are becoming less subject to the business cycle. Through mergers, diversification, horizontal integration and managerial ingenuity, companies with wide sales fluctuations are seeking to even out their peaks and valleys and thus to utilize plant capacity profitably. For example, the railroad equipments have become general machinery manufacturers; the automakers have been able to expand profits by creating their own finance affiliates, and so on. It is not likely that this process will ever obliterate the distinction between the cyclicals and the stable consumer industries. However, the difference is less sharp than in previous years.

Railroad Equipment, Steel

Traditionally, the most highly cyclical industries have been railroad equipment and steel. In the former group **Pullman**—which has been divorced from operation of sleeping cars since 1947—has experienced post-war earnings fluctuations from $1.21 a share in **1949** to as high as $3.34 in 1957. The company has been able to overcome the long-term decline in its basic car-building activity by expansion into highway trailers and heavy construction. The current year's earnings of around $1.50 a share will be disappointing, but a good recovery in 1962 could result in a more favorable price-earnings relationship.

As a group, the steels have become less cyclical during the postwar period, although they cannot be regarded as growth issues today. Both of the leaders, **U. S. Steel** and **Bethlehem** did, in fact, enjoy fairly steady earnings expansion in postwar years through 1957. More recent results, however, have re-emphasized the inherent fluctuations involved in steel's reliance on durable goods industries for orders. Bethlehem, in fact, has suffered to the point where its 60¢ quarterly dividend, maintained since 1957, cannot be viewed as well assured, indicating that the apparently generous yield is not to be accepted at face value. U. S. Steel, selling at a comparable price earnings ratio, is covering its dividend by a much more comfortable margin.

Hard Times for the Metals

Most of the non-ferrous metals have suffered a long continuous decline in earnings since the late 40's although this was interrupted for many of them by a sharp recovery in 1956, when the price of copper briefly hit 46¢ a pound. Thereafter, the price fell abruptly and has subsequently remained sluggish at around 30¢.

Consequently, **American Smelting** has suffered earnings fluctuations, with recoveries less pronounced than declines. Somewhat better conditions last year have resulted in restoration of the dividend to a $2.00 annual basis. Although the stock is speculative on a near-term basis, the company has a strong, world-wide natural resource position. **Anaconda** is in much the same spot, but the concentration of its properties in inflation-ridden Chile adds to the risk elements.

International Nickel, although also an important copper producer, is more directly affected by the price of its namesake metal, in which it enjoys a Free World near-monopoly. As nickel prices have been increased recently and industrial uses of the metal are expanding, the outlook for the company is more favorable. A much more competitive situation exists in aluminum, both within the industry and against rival metals, and this problem has been further aggravated by over-expansion of productive capacity.

Aluminum Company — and its experience has been typical of others in the industry — has suffered a decline in earnings since 1956. With price cutting and rising costs, sales have failed to increase. Although the stock has reacted sharply from its earlier highs, it still carries a substantial element of risk.

Machinery Analysis Must Emphasize Trends

Some of the machinery manufacturers have exhibited a surprising degree of stability, considering the cyclical characteristics of their industry. **Ingersoll-Rand**, for example, experienced very steady expansion in postwar earnings through 1957, and the decline since then has been fairly moderate. The company's air compressors, pneumatic tools and other heavy machinery are widely used and not dependent upon any narrow group of industries. The company is in a position to benefit from further business improvement.

Caterpillar Tractor's earnings chart has followed a more jagged path, but the successive peaks have tended to reach new highs. In the expectation that this record will be extended, the market continues to price this stock at a higher figure in relation to earnings than many other machinery issues. However, the Administration's recent decision to cut back the highway program may affect the company to some extent.

In theory, agricultural equipment should enjoy a more stable pattern, subject to the vicissitudes of crops and weather. Actually, **Deere**, the second largest factor in this industry, has experienced very wide fluctuations in earnings. After a record year in fiscal 1959, Deere's earnings dropped sharply in 1960, with only a partial recovery indicated for 1961.

Automobiles and Electric Equipment

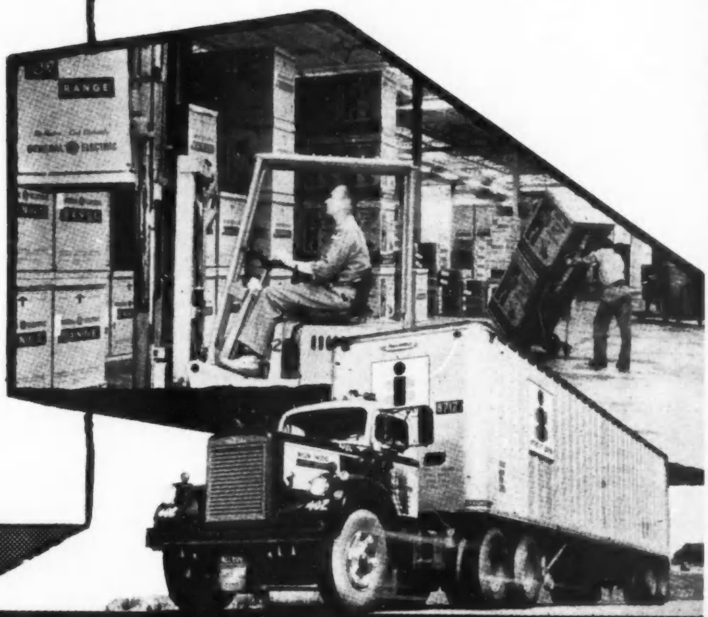
The automotive stocks have been covered periodically in this magazine and no lengthy discussion is required. Today, the industry is the focus of widespread general interest. Although the automobile is a consumer item, its relatively high cost, and durability, as well as the importance of style factors and the prestige of a new model with consequent overselling in prosperous years, all make the industry particularly cyclical. In this field, survival is a creditable feat for any company other than **General Motors** and **Ford.** Both of the latter companies are in a strong position currently, and General Motors' recent extra dividend has been interpreted as an expression of confidence in the outlook. However, increasing traffic congestion over the country suggests that the strong growth phase of this industry may be approaching an end.

General Electric could equally as well have appeared in the Blue Chip list, although the industrial segment of its market bulks much larger than its consumer business, and the company suffered severely in last year's recession. **Westinghouse Electric** has not experienced G.E.'s gradual growth, and this accounts for its normally *(Please turn to page 320)*

Special Investment Feature

Gradual Recovery Now in Prospect for

MATERIALS HANDLING INDUSTRY



By GEORGE E. WINES

- **Constructive factors are: rising industrial activity — increased government spending — expansion directed primarily towards foreign areas.**
- **Other favorable aspects include new potentials through diversification — new products — research and government attitude toward machinery write-offs — limiting factor continues to be extremely competitive conditions at home and abroad**
- **The varying status for the individual companies — those looking good for 1962 — companies that are relatively well situated — those that will hold their own — those still in a highly speculative position.**

MATERIALS handling equipment in the broad sense of the term has many different aspects and could very well include all types of vehicles such as trucks, trains, airplanes and ships which move goods from one place to another. From the standpoint of proper industry analysis, however, it covers only a more limited classification embracing such products as cranes, hoists, conveyor equipment, fork-lift trucks, industrial tractors and similar equipment.

A Difficult-to-Classify Industry

While some industry statistics pertaining to such products may be found, it is difficult to relate them closely to most of the larger companies in the field because they have such wide diversification. Actually, close to 2,000 companies produce materials handling devices of one kind or another. Among them are the giants in such major industries as rubber, automobiles, and agricultural machinery. Although these do contribute importantly to the materials handling industry, the portion of their sales and earnings derived from that source is relatively insignificant.

The accompanying table includes the more important companies which have a substantial interest in the materials handling field. Although some of these firms, including **Bucyrus-Erie, Harnischfeger, Joy Manufacturing, Koehring** and **Thew Shovel,** might conceivably be considered primarily as manufacturers of construction and mining machinery, a number of their products compete with those of the more "bona fide" materials handling equipment makers. Moreover, their basic problems and prospects are quite similar.

Towmotor, although relatively small in size, is the most representative of the industry among the entire group. Virtually all of the company's products can be considered as directly related to the materials handling field.

Among the larger companies, **Yale & Towne,** with roughly two-thirds of its business derived from materials handling equipment, is the leader in the industry. It claims to have the most complete line of lift truck and hoisting equipment. However, the remaining portion of its business—locks and builders' hardware—is quite unrelated to materials handling.

Clark Equipment is also a leader in the field but again the portion of its total business derived from construction machinery, heavy automotive components and truck trailers outweighs that derived from fork-lift trucks, straddle carriers, industrial tractors and other materials handling implements.

Link-Belt is a major factor in another phase of materials handling—that of power transmission machinery for conveyors, elevators, cranes, etc. Construction equipment also is an important segment of the company's business.

What Industry and Company Statistics Reveal

Despite the assumed growth potential of the materials handling equipment industry arising from its close association with automation and the ever increasing demand for labor saving equipment, relatively little evidence of growth has been demonstrated since the 1955-56 business expansion. According to the Material Handling Institute, the index (1954 = 100) of bookings for material handling equipment stood at 121 in September, 1961. This represents a decline of 11% from the same month of 1955, 21% from September, 1956, and compares with an average of 121 for the month over the past seven years. In contrast, the index of industrial production in September was close to the all time peak and up 14% from the same month of 1955.

A summary of results for the 14 companies represented in the accompanying table shows that sales last year (including five companies with fiscal years ending in September, October or November) were up 25% over 1955 but were practically unchanged from the 1956 level. Moreover, it should be remembered that sales in a number of instances have been bolstered by acquisitions involving the issuance of stock or long term debt. The effect of steadily rising costs and competitive pricing is evident by a comparison of net income of the aforementioned companies. Last year the combined profits of these concerns fell 26% from 1959 and amounted to only $37.7 million or 3.2% of sales.

In 1955 the same group had profits of $53.3 million (5.3% of sales). Peak earnings of $71.8 million (6.2% of sales) were attained in 1956. Thus, last year's profits were only a little better than half those of four years earlier. While this represented a slight improvement over the depressed results of 1958, it was nevertheless a dismal performance and far below that of industry in general. **From the standpoint of per share earnings, the results were even less satisfactory, suffering dilution from the issuance of additional shares by a number of companies for acquisitions and to raise needed capital.**

Results Likely to Remain Uninspiring

Last year, only **Towmotor, Manning, Maxwell & Moore** and **Yale & Towne,** among the nine companies reporting on a calendar year basis, were able to post higher sales than in 1959 and of these, only Manning managed to show increased profits. The latter benefited from new management as well as larger foreign business. Towmotor's sales were bolstered by important Government orders while Yale & Towne's extensive and expanding activities abroad permitted a slight gain in overall dollar volume. **Hewitt-Robins** experienced only a nominal sales decline and elimination of unsatisfactory rubber foam operations together with a major cost reduction program permitted a reversal of the previous year's loss.

The five companies reporting on a fiscal year basis had a moderately better sales performance last year (although off 1% from the prior year) than those on a normal calendar year. **American Hoist and Derrick, Harnischfeger** and **Joy Manufacturing** each enjoyed a nominal gain in dollar volume. **Only American Hoist and Joy were able to translate higher sales into slightly improved profits. On a combined basis, however, net income of the group declined almost to the same extent as the companies with calendar years.**

► In the current year, sales and earnings during the first nine months have continued the declining trend in evidence last year. However, year-to-year comparisons have become more favorable in recent months, reflecting the upward movement in business activity currently underway and the downward slide which occurred in the latter part of 1960. Moreover, strong cost control efforts have been successful in preventing further erosion of profit margins. For example, in the initial nine months of this year a summary of eight companies reporting on a calendar year basis (Towmotor is excluded as it reports only on a semi-annual schedule) showed profits of 4% while sales dropped 6%. This improved margin can be attributed to third quarter operations which produced a sales gain of 1% while net income soared 42% over the year-earlier period. Despite the relatively improved results, third quarter profits still represented only 3.2% of sales and were off slightly from those in the second quarter.

Among the better performers in recent months are **Clark Equipment, Hewitt-Robins, Bucyrus-Erie, Koehring** and **Thew Shovel.** The latter three companies are heavily represented in the construction and mining fields and their operations have been exceptionally depressed over the past several years. All five companies are expected to report improved profits for the current year.

With prospects of rising industrial activity next year, most producers of materials handling equipment should enjoy a higher level of operations. Those with strong foreign interests should do relatively better. In view of continuing highly competitive conditions and constantly rising costs in this country, however, no great upward surge in profits is envisioned at present.

Past Dividend Records Unimpressive

A number of companies in the materials handling group, including Chain Belt, Joy Manufacturing, Link-Belt and Yale & Towne, have long dividend records. In the group under review, however, only one company—**American Chain & Cable**—has gone through the past decade without ever reducing the dividend. This company maintained an unusually stable record, paying $2.50 per share each year since 1951, supplemented by two small stock dividend distributions in 1956 and 1957. Four other companies—Clark Equipment, Manning, Maxwell & Moore, Towmotor and Yale & Towne are currently paying dividends at the highest rate in recent years, and payments at present levels are expected to continue over the near term. Among other concerns, dividend disbursements have been subject to reductions. American Hoist and Derrick reduced the dividend in 1960 even though the former dividend had ample earnings coverage. **Bucyrus-Erie,** which formerly had paid dividends at an annual rate of $2.00 per share or more, has been unable to make a disburse-

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ment since 1958 as a result of losses in recent years. Under present credit agreements, it appears unlikely that dividends can be resumed until substantial earnings are accumulated. The company's backlogs have risen substantially, but President Kennedy's recent decree, ending the speed-up in Federal funds for highways, may adversely affect this important area of the company's operations. **Chain Belt** recently failed to repeat the year-end extra of 25¢ per share paid in the final quarter of 1960. **Harnischfeger** reduced its dividend in the last quarter of 1960 from a quarterly rate of 40¢ to 25¢. **Hewitt-Robins** was forced to cut the former annual dividend rate of $2.00 in 1959 when the company lost money. However, the present 25¢ quarterly rate appears reasonably secure in view of the improved earnings trend.

Despite earnings of only $2.27 per share in the fiscal year ended September 30, 1961, the current annual $2.00 dividend rate of **Joy Manufacturing** is expected to be maintained. Although **Koehring** has recently shown an improved profits trend, directors of the company passed the former 15¢ quarterly dividend in July. **Link-Belt's** $2.40 annual dividend appears somewhat high in relation to possible earnings of $2.75 this year but it may be continued in view of improved prospects for 1962. In general, dividend rates of most companies in the group should be maintained at present levels over the foreseeable future.

Specific Factors Accounting for Depressed Results

Rising labor and other costs, excess capacity, extreme competition from domestic and foreign sources and reduced demand are the basic factors explaining the present low level of profits in the materials handling equipment industry. American Chain & Cable was penalized last year by materially increased employment costs arising from a new labor agreement effective in *(Please turn to page 314)*

Principal Materials Handling Companies

	1st 9 Months: Net Sales 1960 (Millions)	Net Sales 1961 (Millions)	Net Profit Margin 1960 %	Net Profit Margin 1961 %	Net Per Share 1960	Net Per Share 1961	1960 Earned Per Share	1960 Cash Earn. Per Share	Indic. 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
Amer. Chain & Cable	$86.6	$81.4	3.7%	2.6%	$2.83	$1.89	$3.65	$5.76	$2.50	53 -40¼	46	5.4%
Amer. Hoist & D.	18.2[4]	18.3[4]	2.0	1.3	.50[4]	.47[4]	1.76	2.84	.60	19 -10¾	12	5.0
Bucyrus-Erie Co.	51.7	56.5	.004	2.8	.001	.86	d5.33	—	—	25 -12½	20	—
Chain Belt	64.7	64.0[1]	N.A.	N.A.	3.02	2.35[1]	3.02	4.31	1.60	70½-40	47	3.3
Clark Equipment	155.1	137.4	3.5	4.2	1.14	1.20	1.41	2.02	1.20	46⅜-27¼	34	3.5
Harnischfeger Corp.	39.4[5]	39.6[5]	2.1	1.5	1.09[5]	.49[5]	1.37	3.46	1.00	32¾-18⅜	20	5.0
Hewitt Robins, Inc.	35.2	32.0	1.2	1.6	1.03	1.10	1.36	3.68	1.00	28½-18¼	24	4.1
Joy Manufacturing	102.1	100.5	5.5	4.2	3.01	2.27	3.01	4.25	2.00	48 -29¼	38	5.2
Koehring Co.	47.0	38.8	1.5	2.4	.37	.52	.04	1.21	[3]	16 - 8⅝	10	—
Link Belt	114.3	105.4	3.5	3.0	2.16	1.71	3.25	5.58	2.40	61¾-43¼	51	4.7
Manning, Maxwell & M.	35.8	32.6	4.1	3.0	1.89	1.28	2.09	3.83	1.40	30⅜-19⅝	26	5.3
Thew Shovel	19.6	20.0	1.0	.5	.46	.25	.40	1.72	.20	22 -15⅝	18	1.1
Towmotor Corp.	20.4[5]	15.5[5]	8.0	5.9	2.07[5]	1.17[5]	3.30	3.82	1.40	36 -26	32	4.3
Yale & Towne Mfg.	105.4	99.5	3.7	3.3	1.79	1.48	2.00	3.00	1.50	38 -26¼	32	4.6

*—Based on latest dividend rate.
d—Deficit.
N.A.—Not available.

1—Year ended Oct. 31.
2—Year ended Sept. 30.
3—Dividend omitted 7/24, 1961.
4—25 weeks ended May 27.
5—1st 6 months.

American Chain & Cable: Serves a wide range of capital goods and consumer goods markets. Products include various types of chains (also tire chains), wire rope and cables, hoists, cranes, power mowers and chain fencing. **B4**

American Hoist & Derrick: Producer of cranes, hoists and derricks, cargo equipment and special custom heavy materials handling equipment. Large book value per share. **C2**

Bucyrus-Erie: Largest manufacturer of power shovels and cranes. Construction, mining and quarrying industries are principal customers. Order backlog up substantially. **C3**

Chain Belt: Power transmission equipment, construction and road machinery together with conveyor and process equipment account for the bulk of sales. Markets are broadly diversified. **B4**

Clark Equipment: A leading producer of fork-lift trucks, towing tractors and powered hand trucks. Also an important manufacturer of construction machinery, heavy automotive components and truck trailers. **A1**

Harnischfeger: Largest producer of overhead cranes; also a leading manufacturer of hoists, excavators, power shovels and prefabricated homes. Very large book value per share. **C4**

Hewitt-Robins: Major supplier of belt conveyor systems. Also produces industrial rubber hose and is a large manufacturer of vibrating equipment for processing iron ore, coal, cement, etc. Order backlog up sharply. **C1**

Joy Manufacturing: A leading manufacturer of mining machinery, mainly for coal industry. Air handling equipment (compressors, dust collectors, fans, etc.) and oil field equipment also important. Foreign operations growing rapidly and contribute substantially to earnings. **B4**

Koehring Co.: A leading manufacturer of a wide range of construction and industrial machinery with cranes and shovels representing largest volume of business. Profits rising despite lower sales. However, dividend was recently passed. **C3**

Link-Belt: Manufactures a well diversiefied line of mechanical power transmission and materials handling products. Strong financial position; long dividend record. **B4**

Manning, Maxwell & Moore: Products, including valves, gauges, instruments, cranes and hoists, supplied almost entirely to capital goods industries. **B4**

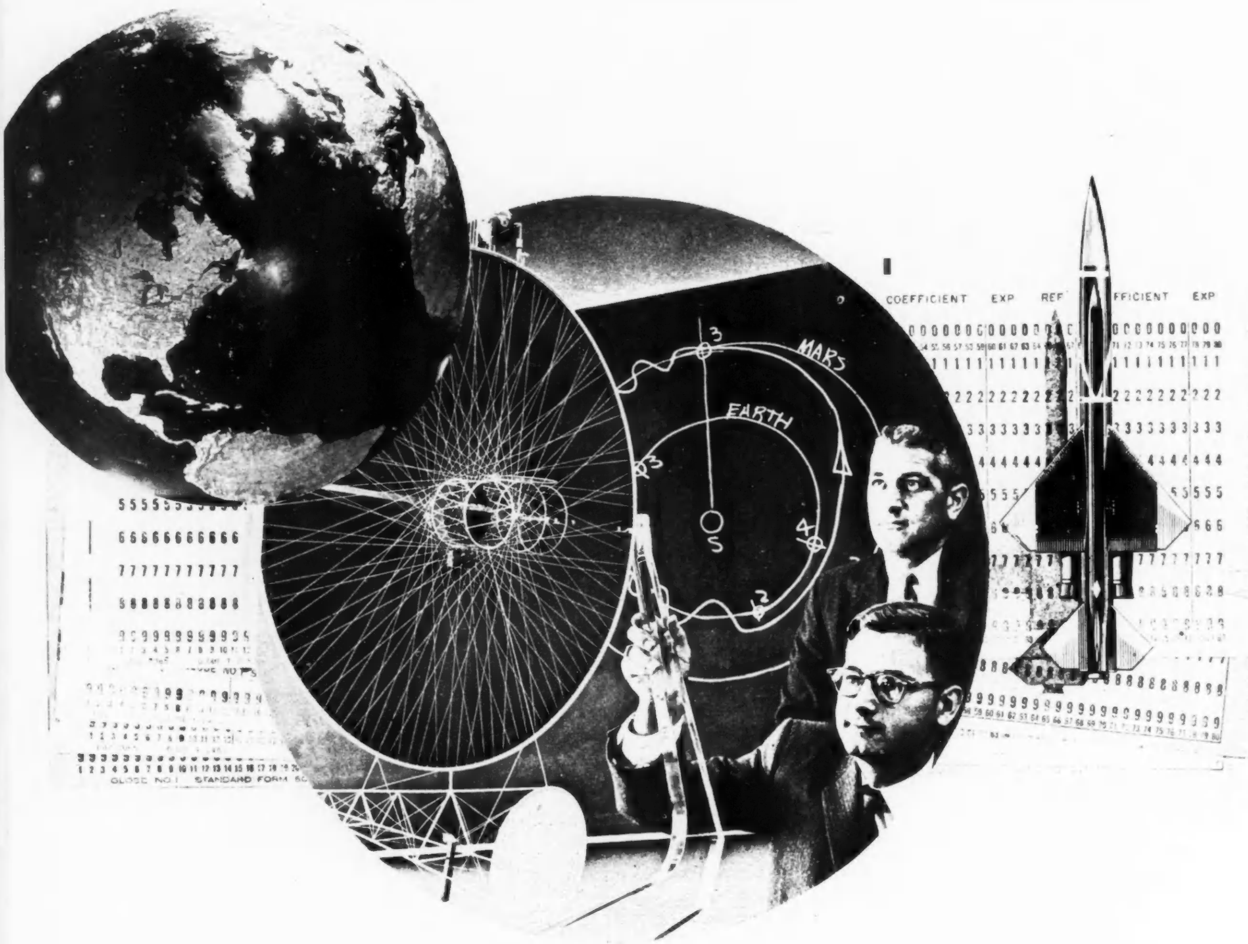
Thew Shovel: Leading maker of commercial-size power shovels and cranes. Also produces front-end loaders. Replacement parts and services important Small number of shares outsttanding; high book value per share. **C3**

Towmotor: Major producer of gasoline-powered fork lift trucks. Company plans entry into electrically powered truck field. **B4**

Yale & Towne: Well known for its locks and builders finishing hardware, company is also one of the largest factors in the materials handling equipment field. Long dividend record. Foreign operations contribute importantly to earnings. **A4**

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from the lows.
4—Lower earnings trend.



Comparing
BOEING WITH UNITED AIRCRAFT
— Two Giants in the Industry

By ROBERT ARTHUR

► **United Aircraft building for the future — under difficult and costly transition — earnings-dividend outlook in 1961-62**

► **A new tempo for Boeing — striding ahead under impetus of first solid fueled missile — commercial jets — calculating earnings dividends lift for 1961-62**

ON Friday, November 17, 1961, a **Boeing** *Minuteman* missile, leaping from an underground steel and concrete pit, swept 3,000 miles down the firing range thus indicating, for the first time, that the operational Minuteman will probably be able to withstand a nuclear attack and still strike a retaliatory blow. This is because Boeing's Minuteman, the nation's first solid fueled intercontinental ballistic missile, may be stored underground indefinitely and actuated, without countdown, from remote locations.

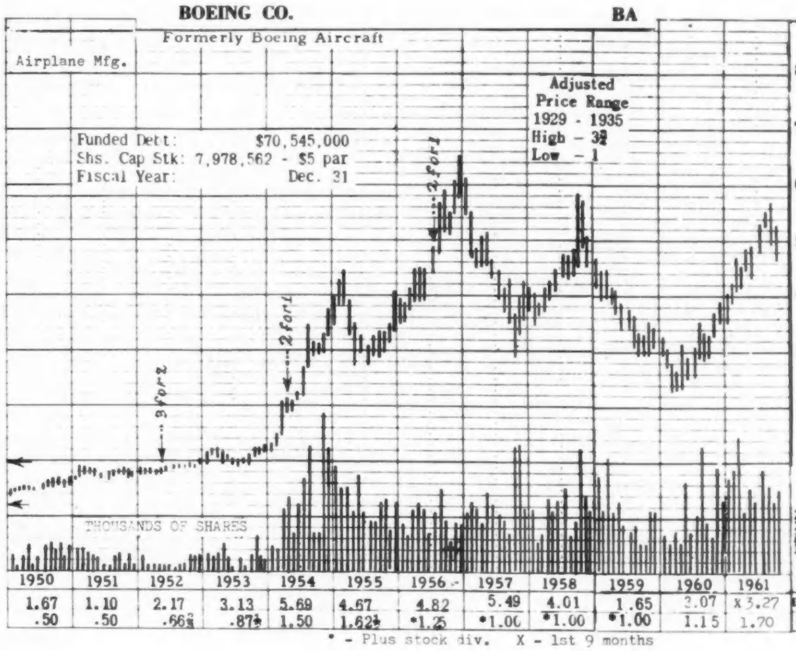
A few months ago **United Aircraft** successfully test-fired an operational, flight-weight rocket generating a thrust of 250,000 pounds. The test represented the most impressive solid-fuel rocket test ever made in the U.S. Since then Aerojet-General has also succeeded in test firing a 500,000 pound rocket, but United is now preparing for a test which it claims will surpass Aerojet's accomplishments.

In addition to such successful military accomplishments, Boeing and United have cooperated in building the 707 commercial jet aircraft, which may prove to be the best commercial airliner ever made. Boeing designed the 707 and manufactures the airframe; United designed and builds the jet engines which serve to power the aircraft. United also furnishes the power plants for Boeing's B-52, KC-135 and C-135 aircrafts.

Why Are These Two Industry Leaders Overlooked?

In an era which finds speculators paying fantastic

multiples for the stocks of unproven companies with questionable technical potentials it may seem strange that the stocks of established, dividend-paying companies, possessing great stores of technical know-how, are selling at relatively modest price-earnings multiples and at prices substantially below the highs of four and five years ago. Yet Boeing, United and other aircraft (or aerospace) companies are cases that illustrate this neglect. The explanation doubtlessly would rest largely upon the feast and famine history of the indsutry, but it also involves the considerable mutation the industry has undergone during the past several years, viz., the change from aircraft to missiles, spacecraft and other complex weapons systems.



Shortly prior to the military budget cutbacks instigated by Defense Secretary Charles Wilson early in 1957, aircraft stocks were at all-time highs and had gained considerable investment stature. The budget curtailments ended this popularity and caused aircraft stocks to fall sharply, until October of that year when Russia shocked the world by firing Sputnik I.

The Post-Sputnik Lull . . . And the New Crisis

Sputnik dramatically indicated our technical shortcoming and paved the way for substantial in-increases in military expenditures. Aircraft stocks reacted favorably to the indications of accelerated spending but not for long. It soon became apparent that the skills and facilities needed to build conventional aircraft and aircraft engines were not necessarily those required to build missiles, satellites and spacecraft. Consequently, competition became more and more intense as electrical, electronic, chemical and other companies began to compete more and more with aircraft companies for the defense dollar. Thus, after a false start created by Sputnik, aircraft stocks began a prolonged retreat which continued until May, 1960, when a series of incidents highlighted international tensions and made higher defense expenditures and a re-emphasis of limited warfare weapons seem certain.

As the first startling event—our U-2 aircraft was shot down over Russia, and shortly thereafter the Summit Conference collapsed. In the period since, with crises all over the world, a number of manned space achievements by both Russia and the U.S., and continual indications of more defense and space spending, have served to keep aerospace companies in the headlines. The stocks of the companies involved have responded accordingly.

A Difficult and Costly Transition

While the original impetus behind the partial recovery of aircraft stocks starting in May, 1960, may

Balance Sheet Data

	Boeing Co. 12/31/60	United Aircraft Corp. 6/30/61
	(Millions)	
Common Stock and Surplus	$237.0	$252.7
Number of Com. Shares outstand (000)	7,971	6,396
Preferred Stock (stated value)	None	$ 34,356
Long Term Debt	$ 70.5	$ 75.0
Cash and Marketable Securities	$ 28.8	$ 41.9
Inventories, Net	$233.7	$207.6
Receivables, Net	$164.0	$132.3
Current Assets	$429.7	$381.9
Current Liabilities	$229.7	$158.2
Net Working Capital	$200.0	$223.7
Current Ratio (C.A. to C.L.)	1.8	2.4
Net Property	$ 88.7	$122.3
Total Assets	$537.2	$526.8
Book Value Per Common Share	$ 29.73	$ 39.51
Earnings Per Share 1960	$ 3.07	$ 1.95
Est. Earnings Per Share 1961	$ 4.50	$ 2.00
Recent Price of Common Stock	47	43½
Price Earnings Ratio	10.4*	21.7*
Indicated Current Dividend	$ 1.60	$ 2.00
Dividend Yield	3.4%	4.3%

*—Based on est. 1961 earnings.

well have been the re-emphasis upon conventional aircraft and weapons, some aircraft companies had nevertheless seen the handwriting on the wall well in advance. Explicitly, they had recognized the trend from aircraft to missiles, and therefore in the last several years had built substantial capabilities in electronics, space, atomics and other advanced areas. This transition has not been easy, nor has it been cheap. It has required substantial outlays: to establish new facilities (requiring sums in excess of depreciation) better suited for the new type of production; to hire professional people in new technical areas; and to develop new products. As a consequence of these financial requirements, debt, long-term and short, has increased significantly and dividend cuts and omissions have been frequent.

In spite of the difficulties, some companies have successfully negotiated this transition and in view of the expectations of higher forthcoming defense expenditures these stocks appear to be attractive vehicles. Paradoxically, the aircraft companies which accomplished the transition most readily were not necessarily more farsighted, but were simply forced into new areas at an earlier stage as they were running out of aircraft contracts. **Martin** and **Northrop** are good examples of this situation. How Boeing and United Aircraft, two giants of the industry, have fared during this difficult transitional period, presents an interesting picture.

United Aircraft's Earlier Successes

In 1957 **United Aircraft** was considered the "blue chip" of the aircraft industry. It was, in fact, among the largest holdings, in terms of dollar value, of many institutional investors. The sudden shift from aircraft to missiles, or more specifically the transition from airplanes which required jet engines, to missiles and space vehicles requiring rocket engines, caught United with its pants down. This was not the first time United has been caught in such an embarrassing predicament.

Prior to World War II, the company had gained the pre-eminent position in the aircraft engine business primarily due to the development of the famous Wasp engine by United's Pratt & Whitney division. The Wasp was a revolutionary engine; clean, durable and efficient; it delivered more horsepower to pound of engine weight than any engine then known.

When the war came, United made great contributions to the defense effort. It developed and built a family of Wasp engines of various configurations and expanded plant capacity manyfold in order to meet the huge demand. The demand also dictated that United license others (Ford, Chevrolet, Nash, Buick, etc.) to manufacture its engines. Altogether United and its licensees delivered half of all the horsepower the combined American forces had used in the air during World War II.

Struggle to Regain Leadership

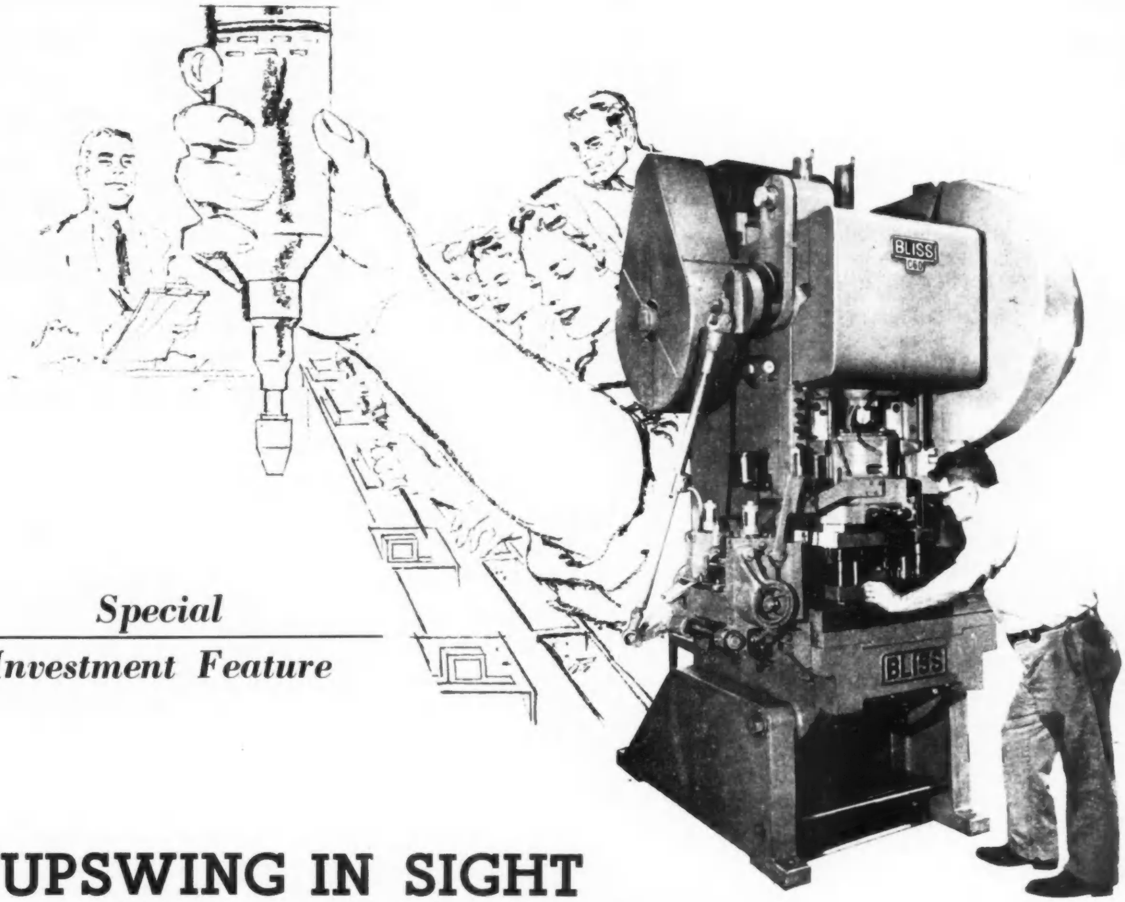
At the end of the war *(Please turn to page 317)*

Long-Term Income Data

	Boeing Company						United Aircraft Corp.					
	Net Sales (Millions)	Net Income (Millions)	Net Profit Margin	Net Earn. Per Share	Div. Per Share	Net Working Capital (Mil.)	Net Sales (Millions)	Net Income (Millions)	Net Profit Margin	Net Earn. Per Share	Div. Per Share	Net Working Capital (Mil.)
1961 (1st 9 Months)	$1,309.2	$26.0	2.0%	$3.27	$1.60[1]	N. A.	$796.4	$7.7	.9%	$1.05	$2.00[1]	$N. A.
1960	1,554.5	24.4	1.5	3.07	1.15	200.0	989.2	13.8	1.4	1.95	2.00	201.7
1959	1,612.1	12.4	.7	1.65	1.00[2]	196.9	1,082.1	28.6	2.6	4.26	2.50	161.9
1958	1,711.9	29.3	1.7	4.01	1.00[2]	190.7	1,201.6	42.3	3.5	6.41	3.00	147.6
1957	1,596.5	38.1	2.3	5.49	1.00[2]	97.0	1,233.6	51.3	4.1	7.97	3.00[2]	141.0
1956	1,006.3	32.1	3.2	4.82	1.25[2]	99.3	954.3	37.0	3.9	5.88	3.00	138.3
1955	853.8	30.4	3.6	4.18	1.62	96.7	698.9	31.0	4.4	5.12	2.75[2]	88.7
1954	1,033.1	36.9	3.5	4.98	1.50	87.2	655.0	26.0	4.0	4.25	2.32[2]	75.3
1953	918.2	20.3	2.2	3.13	.87	60.2	817.9	21.2	2.5	3.46	1.82	79.8
1952	739.0	14.0	1.9	2.17	.67	50.6	668.1	17.8	2.6	2.88	1.32	67.6
1951	337.3	7.1	2.1	1.10	.50	45.8	417.4	14.2	3.4	2.25	1.32[2]	80.4
10 Year Average	$1,267.1	$27.1	2.4%	$3.82	$1.21	$112.4	$951.4	$29.0	3.3%	$4.54	$2.50	$118.2

N.A.—Not available.

[1]—Estimated for 1961.
[2]—Plus stock.



Special

Investment Feature

IS UPSWING IN SIGHT FOR MACHINE TOOLS?

By EDWIN CAREY

- **Potentials for the year ahead on both domestic and foreign business.**
- **What benefits from liberalized depreciation — political-economic aspects under high level of unused industrial capacity — favorable and unfavorable factors.**
- **The strength of the individual companies — earnings dividend outlook — those likely to advance — maintain their position — where speculative.**

A SELECT group of the country's top business leaders met recently at Hot Springs, Va., for a session of the Business Council. This is a private organization originally set up to provide a means for closer understanding between business and government, and unofficially tied in with the Commerce Department until friction earlier this year arising from remarks made by Secretary Hodges caused a divorce. However, the Kennedy Administration, obviously wishing to kill the anti-business image that is developing, dispatched a number of peace-making government officials to address the group, and from this mission came significant new pronouncements concerning liberalized depreciation.

Secretary Dillon said that either late this winter or early next spring he will decree liberalized depreciation rules that will have across-the-board implications. The type of action planned will not require legislation, but simply a ruling by the Secretary of the Treasury allowing more rapid write-offs as a deduction from taxable profit. These funds, the government hopes, would be used to modernize American industry. Such action would tend to bolster the demand for machine tools in particular.

The Administration is obviously serious about such a plan, for the "deplorable state of America's industry" was one of the leading issues of the Kennedy campaign. Dillon was able to point to the action already taken early in October, to liberalize depreciation for the textile industry as evidence that the Administration is committed to depreciation reform. Nevertheless, a number of executives attending the Business Council meeting were still skeptical as to the real motivation behind Dillon's "new look," although all shared the feeling that a small bone thrown from the table is better than none at all.

Another plan that the Administration has proposed, ties the tax advantage to actual expenditures for new equipment. For example, a company would be allowed to deduct from its tax bill an amount equal to 8% of the cost of new equipment. **A num-**

ber of top officials have opposed this plan as unsound, because it says in effect, "Either expand or pay higher taxes"; in brief, it is a method of using the tax power to promote political objectives. Considering the excess capacity that exists in most industries today, further expansion simply to avoid tax penalty might be unwise. This plan was embodied in legislation proposed earlier this year, and although shelved by Congress may still be revived. Business would obviously prefer a straight liberalization of depreciation, without strings attached.

To "Modernize" or "Expand"?

Most machine tool producers feel that added depreciation allowances will indeed be passed and that they will provide greater incentive for the purchase of machine tools. If general business conditions are also favorable, this incentive would naturally be much more powerful than if the economy were at a generally low level. Some administration officials, making a careful distinction, maintain that industry should *modernize* but not *expand*. Experience shows, however, that almost without exception modernization means expansion; for installation of a new machine to replace an old one almost invariably makes a higher output possible because of the higher efficiency of the new equipment. Often the old machine is also either rebuilt or sold in the second hand market, and this contributes to further expansion of total capacity. **Since the amount of unused capacity for all business is now at a high level, and the entire economy is operating at only around 70% of its potential, it is unfortunately difficult to justify expansion at present.**

In actuality. the machine tool industry never recovered from the 1958 recession and so has endured four years of low shipments. Many companies in this industry have even been operating throughout this period with a volume of shipments less than one half of their 1956 output. Unemployment is high. The Administration's desire to stimulate this industry thus arises from the double objective of stimulating the American economy and contributing to the defense program.

The following table shows the extent of this recession, which is sometimes referred to as the "machine tool depression."

	Shipments of Metal-cutting Tools (millions)
1954	$892
1955	670
1956	886
1957	843
1958	411
1959	413
1960	508
1961 Est.	490

What Is Normal?

Looking at the figures above, one would assume that a more normal level of shipments might be closer to $700 million than $400 million, even if it is assumed that 1956 was an unusually good year. Chairman Geier of **Cincinnati Milling,** the largest machine tool producer, estimates in fact that a normal level of shipments would be around $750 million. **This is no less than 65% above the average of the four years 1958-61!** Whereas there are some two million metal-cutting machine tools installed in this country only 34,000 were shipped in 1960. **This contrast lends support to Geier's statement that the current rate of shipments is well below what might reasonably be considered normal, since the 1960 rate would require some 59 years to replace the machines now in use.**

It is certain that the replacement cycle is very much shorter than this, even recognizing that one present-day machine will do more than the ones being replaced. (It is estimated that productivity per man-hour using present-day machine tools is 35% above 10 years ago.)

Is September Pick-up an Omen — or a False Start?

In September new orders for machine tools rose to the highest level in 4½ years. However, industry leaders have seen false starts before and are somewhat skeptical as to whether this marks the beginning of a recovery trend. They agree that the added stimulus of liberalized depreciation would not hurt and may help to some extent in bringing about a recovery.

One point of concern regarding the September rise in new orders is that most of the gain in business came from foreign customers. Some 40% of the total new orders were from foreign countries vs. 34% the previous month and 30% for all of 1960. Five years ago the typical ratio was 12%-15%. While any business is gratefully accepted, the real question arises as to the durability of this foreign demand, since European machine tool builders have 10-18 month backlogs vs. an average of 5 months in the U. S., and a spill-over of demand is apparently coming here. Many foreign customers are even paying a premium in buying from the United States to get quick delivery. However, the September figures do show an increase in domestic ordering too, and this is encouraging. (In September domestic orders reached $34.2 million vs. $29.7 million in August and $25.8 million a year ago. Foreign orders increased to $22.6 million from $15.1 million in August and $16.4 million a year ago.)

Declining Profit Margins

Most machine tool stocks reached their lows of recent years early in the fourth quarter of 1960, just prior to the presidential election. Since then they have advanced in anticipation of the benefit of liberalized depreciation. Generally speaking, they are not cheap in terms of expected 1961 earnings, which are still at a depressed level. When related to 1956 earnings, however, most of the stocks still look like bargains. Unfortunately, there is no guarantee that earnings will recover to the 1956 level even if shipments should recover that much. Costs are now higher and last year's 5%-10% price increases were not enough to maintain profit margins.

A good example of what has happened can be seen in the case of **Cincinnati Milling.** During the Korean War, when machine tools were in heavy demand, Cincinnati's volume reached a record high of $150.5 million and earnings amounted to $6.39 a share. In 1956 shipments were nearly as high, at $149.5 million, but earnings were down to $4.64. Now if volume should go back to the $150 million level, earnings of about $4.00 seems reasonable. Between 1933 and 1960 the pretax margin declined from 25.2% to 5.0%. These margins, of course, will recover when volume picks up, but are still likely

Leading Machine Tool Companies

	1st 9 Months: Net Sales 1960 (Millions)	Net Sales 1961 (Millions)	Net Profit Margin 1960 %	Net Profit Margin 1961 %	Net Per Share 1960	Net Per Share 1961	1960 Earned Per Share	1960 Cash Earn. Per Share	Indic. 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
Black & Decker	$60.7[1]	$67.6[1]	9.0%	8.4%	$2.38[1]	$2.45[1]	$2.38[1]	$2.91[1]	$1.60	71⅞-35¼	56	2.8%
Bullard Co.	9.0[2]	9.9[2]	d6.3	d2.2	d.79[2]	d.30[2]	d.47	.56	—	19⅜-10⅜	14	—
Chicago Pneumatic Tool	44.6[2]	40.8[2]	10.3	8.9	1.06[2]	.82[2]	2.13	2.61	1.20	38¼-22	30	4.0
Cincinnati Milling Mach.	N.A.	N.A.	N.A.	N.A.	.96[4]	1.42[4]	1.52	3.70	1.60	49¼-26½	45	3.5
Ex-Cell-O Corp.	104.8[3]	104.4[3]	6.2	6.0	1.77[3]	1.97[3]	2.23	4.59	1.50	44¾-28⅜	42	3.5
Monarch Machine Tool	7.8	6.9	3.0	4.4	.58	.75	.99	1.62	.80	19⅞-11¾	18	4.4
National Acme	21.8	10.2	5.3	5.1	2.23	1.97	3.55	4.34	2.00	59½-40	52	4.0
Sundstrand Corp.	54.7	54.9	2.6	2.0	.90	.66	1.23	3.73	.50	28⅝-16⅛	18	2.7
United Greenfield Corp.	37.3	31.7	5.7	3.8	1.37	.76	1.55	2.41	1.10	20 -15¼	16	6.9

Black & Decker: Have interesting new product in cordless drill now on market for household Christmas buying. **B1**

Bullard: Orders for heavy duty machine tools look better, backlog highest since 1957. **C3**

Chicago Pneumatic Tool: Has strong foreign position and ample profit margins in the U.S. **B2**

Cincinnati Milling: Backlog at $60 million nearly 15% ahead of last year. Profit margins improved first nine months in '61 over very low level a year ago. **B1**

Ex-Cell-O: Increase in defense expenditures should help sale of aircraft parts which equals nearly 40% of volume. **B1**

Monarch Machine: Producer of lathes showing better trend. Dividend recently increased to 60c. Co. had paid $1.20 or more for nine years prior to 1959 and hopes to recoup this rate some day. **C3**

National Acme: Producer of automatic screw machines for mass production. More than 40% of orders now coming from abroad. **C2**

Sundstrand: Sales of aviation products are improving, specialized machine tools becoming relatively less important in total picture. **C2**

United Greenfield: Sales react more quickly to changes in general business picture than for other machine tool producers due to emphasis on dies, chucks, and drills that depend on usage vs. capital outlays for heavy machinery. **C3**

***—Based on latest dividend rate.**
N.A.—Not available.

1—Year ended Sept. 30.
2—1st 6 months.
3—9 months ended Aug. 31.
4—40 weeks ended Oct. 7.

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from the lows.
4—Lower earnings trend.

to show a declining tendency from one sales peak to the next.

The Individual Companies

Black & Decker (56). This producer of portable electric tools is not strictly speaking a machine tool producer; it caters to the household market and to repair shops more than industry. However, a general rise in capital goods and machine tool spending would help this highly regarded company. Well-maintained profit margins and a better-than-average growth in earnings per share characterize this situation. Recently the company has developed an electric drill with a self-contained power source, so that electric wires are no longer needed. Following announcement of this development the stock climbed from the low 40's to a high of 72, but has recently drifted back to the middle 50's. It is still priced at a rather liberal 24 times fiscal '61 earnings and yields 2.8% on the $1.60 dividend. This reflects the premium that the market is willing to pay for a quality situation as well as hopes concerning the cordless drill, which is being offered on the market for the first time this fall.

Bullard Co. (14). This producer of heavy duty machine tools specializing in automatic lathes has done considerable work on numerical controls. It claims 13 basic patents and has notified some 20 companies currently using or making the basic control that in the future a licensing agreement will be required. It has even filed a suit against General Electric for infringement. Bullard's backlog has improved recently, but the resulting increase in shipments may be accompanied by high development costs limiting the gain in profits. The stock reached a low of 11 this year having sold as high as 51 in 1954. After three years of deficits some turnaround in earning power is indicated, and the speculative stock may be held for at least partial recovery.

Chicago Pneumatic Tool (30). This producer of pneumatic hand tools and compressors follows the trend of the economy more than the fortunes of machine tools. While earnings this year may be no more than $1.75, a recovery to $2.25 seems a reasonable two-year goal. (Peak earnings were achieved in 1957 when net per share of $3.14 included a 50¢ special credit.) The company is debt-free, has unusually high profit margins, a modern plant with a potential capacity of $125 million compared with the $83 million volume expected this year, and a rapidly growing foreign business that accounts for at least 20% of shipments. It is a quality holding with a 4.0% yield, and probably entails little downside risk at the present time.

Cincinnati Milling (45). This is the country's leading machine tool producer. Volume has dropped off along with the cycle of the industry, but the downward fluctuation since 1957 was less abrupt than the industry experience. In 1957 Cincinnati accounted for 17.6% of total industry shipments of metal cutting tools, but during the depressed year 1958 its share jumped to 25% and has held at near that level each year since. This was due to more aggressive selling, branching out into tools other than milling and grinding machines, and the folding up of some of the smaller, privately held firms. Earnings in 1961 should approximate $2.00 vs. $1.52 per share a year ago on about the same volume of $125 million. Price increases in effect this year have helped to improve margins and a core of unprofitable business was run off the books last year to be replaced with a better *(Please turn to page 309)*

FOR PROFIT AND INCOME

Year-End Trend

The "traditional year-end rise" is now getting its annual play in the financial press and market letters of brokers. If you are interested in statistics, highs made by the industrial list during the first half of January are virtually always above December lows, with average gain over the past 35 years about 8%. With very few exceptions, they have also been above the November closing levels, with the 35-year average gain on this comparison about 4.5%. However, another year-end habit has had little attention. It is that lows made during the last six weeks of the year — predominantly at some time in December — have been under the best levels of the first half of November by an average of over 6% and that, in many more years than not, the highs in this period have differed little from those seen in the first 15 November trading sessions.

What To Do

If you ask what to do about year-end market tendencies, the answer is: do nothing. Year-to-year variations from the average results cited can be considerable. You have practically no chance of guessing the lows or highs for the industrial average within any short-term period — and far less chance of doing so for any individual stock. It comes down to this: the average person should at all times avoid short-term in-and-out trading. The risks are too great. The best policy at any time of year is to buy individually attractive stocks and sit with them so long as performance and company prospects remain satisfactory.

Chrysler

With per-share sales by far the highest in the industry, Chrysler might hit a jackpot in some future year—as it has done in some past years. But it has become apparent that it cannot be before the 1963 model year in any event; and that meanwhile, management changes leave the company "behind the 8-ball" in competitive position. The industry's recently published comparative retail sales figures for October provided the first proof of unfavorable public response to some of Chrysler's more important models in its 1962 line;

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Anchor Hocking Glass	Quar. Sept. 30	$.56	$.45
Briggs & Stratton	Quar. Sept. 30	.45	.18
Peoples Drug Stores	9 mos. Sept. 30	1.59	.55
Baldwin-Lima-Hamilton	Quar. Sept. 30	.09	.02
Basic, Inc.	Quar. Sept. 30	.44	.10
Bliss & Laughlin, Inc.	Quar. Sept. 30	.40	.20
Copper Range	Quar. Sept. 30	.36	.15
Detroit Steel Corp.	Quar. Sept. 30	.15	.01
Fairchild Camera & Instru.	Quar. Sept. 30	1.16	.99
Manhattan Shirt	Quar. Sept. 29	.31	.27

and indicated further shrinkage in the company's share of the market. Its October sales were 21.8% below a year ago, and in the first 10 days of November they were off 19.3%. The stock has slumped on this news, now standing at $47\frac{1}{8}$, off from earlier 1961 high of $57\frac{5}{8}$. It may be considerably lower by the time these comments reach you. It is questionable whether 1962 earnings could justify a price even close to this year's low to date of $37\frac{3}{8}$. If you hold the issue you might have to wait a long time for any sizable recovery beyond a possible early-January rally after heavy tax selling, now in progress, is out of the way.

Strong Stocks

Among equities broadly classed as industrials, some issues which are meeting above-average demand at this writing and which appear to be pointing upward are: American Can, American Snuff, American Machine & Metals, Babcock & Wilcox, Bayuk Cigar, Beech-Nut-Life Savers, Colgate-Palmolive, Consolidated Cigar, Continental Insurance, Corn Products, du Pont, Federated Department Stores, Ferro Corp., Firestone Tire, FMC Corp., General Cigar, General Tire, Gerber Products, Gillette, Goodrich, Halliburton, Heinz, Heller, Kendall, Korvette, Maytag, Mercantile Stores, National Biscuit, North American Car, Oxford Paper, Penick & Ford, Penney, Pfizer, San Diego Imperial, Square D, United Carbon, Warner-Lambert and Woolworth.

Lagging

Behavior of the following stocks appears unpromising at this time: Air Reduction, Allied Chemical, Allied Products, Alcoa, American Machine & Foundry, American Metal Products, Amphenol-Borg, American Zinc, Anaconda, Automatic Canteen, Bell & Howell, Clark Equipment, Clevite, Collins Radio, Continental Oil, Dow Chemical, Filtrol, Flintkote, General Baking, Harbison-Walker, Joy Mfg., Lehigh Portland Cement, Lily-Tulip Cup, National Sugar, Outboard Marine, Nopco Chemical, Owens-Illinois Glass, Packard-Bell, Texas Instruments, Parke Davis, Westinghouse Electric.

Coppers

As we have pointed out before, copper is an industry which — at least in periods of rising or satisfactory consumption — is benefitted, via firmer prices, by strikes or strike threats or "political uncertainty" in major producing areas. The underlying fact is a sizable excess of world capacity. Right now the copper labor scene is fairly quiet. Future production in the Congo is no less uncertain than heretofore, but the markets have seemingly become accustomed to this and meanwhile there was too much forward buying in Europe. So the world price at London has eased. The same is true of U. S. smelters' prices and scrap copper. It is doubtful whether U. S. producers' prices can hold at 31 cents a pound, despite industrial revival here. We would rather reduce or eliminate holdings of copper shares in portfolios than add to them under present conditions. The same goes for lead, zinc and aluminum stocks.

Take Profits

The rise in American Enka, recommended here in our July 29 issue at 28 and now up about 52% at $42\frac{5}{8}$, shows some current flattening - out tendencies. The outlook for the company remains favorable, but, in view of the past record and the sharp cyclical variations in the textile field, the stock cannot be expected to sell on more than a relatively moderate price-earnings-ratio basis. It could go somewhat higher, but the available profit is large. We now suggest taking it. In the same general field, there may well be a bigger percentage play from this point in Burlington Industries, now at $22\frac{3}{8}$.

Fat's Gone

Mead Johnson hit a jackpot with its "Metrecal" weight-control product. It is still the best known and best selling food substitute in this field. Users of it no doubt have, in the aggregate, taken off million of pounds of excess weight. But — as was easily predictable from the start and was pointed out here some time ago — competing products have mushroomed in number (although quite a few have dropped out of the rugged going in recent months) and there have been a number of price cuts. So a lot of fat has also melted out of Mead Johnson's earnings. They reached a peak of $2.89 a share in the third quarter of last year and were down to well under half that, at $1.25, in the third quarter of this year. The peak year-to-year gain in sales was also seen in the 1960 third quarter at about 137%. This was down to about 45% by the second quarter of this year and to little over 27% by the third quarter. Some people still think this issue is a growth stock. With earnings off widely from a peak reached a year ago, we do not see how the term can be made to fit. The stock is off from a high of $202\frac{1}{2}$ to 160, after rallying from a recent level of 144. We think it is overpriced and should sell lower.

Babcock

Babcock & Wilcox is one of the two leading makers of steam generating equipment, sold mainly to electric utilities; and is also an important producer of boiler pipe and other specialized tubular goods. Up about 29% from a year ago in the third quarter, earnings for 1961 should reach the range of $3.35-$3.45 a share, up from 1960's increased $2 88 and setting a new record. A 1962 gain is likely. Finances are strong, the $1.40 dividend rate conservative. At 54, or less than 16 times 1961 earnings, the stock has above-average merit in the machinery group and should work higher. END

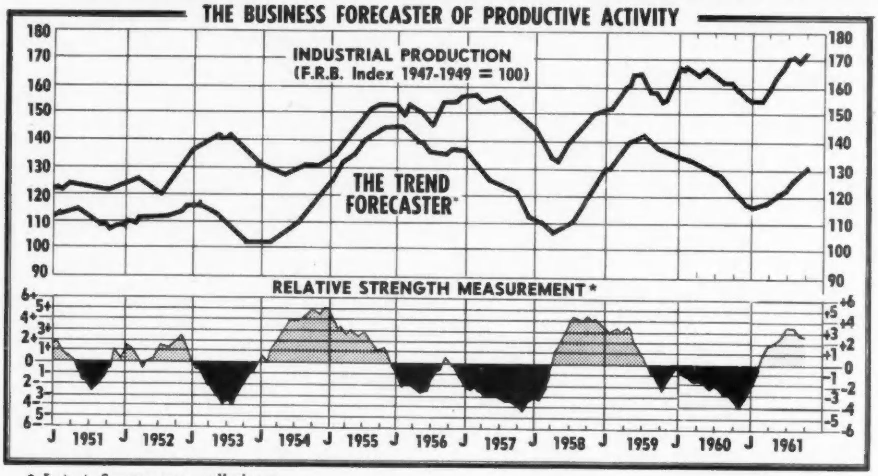
DECREASES SHOW IN RECENT EARNINGS REPORTS

		1961	1960
Bausch & Lomb, Inc.	13 weeks Sept. 22	$ .54	$ .63
Clevite Corp.	Quar. Sept. 30	.51	.60
Fansteel Metallurgical Corp.	9 mos. Sept. 30	.90	1.52
Hoffman Electronics	Quar. Sept. 30	.01	.09
Inspiration Consol. Copper	9 mos. Sept. 30	2.60	3.16
Skelly Oil Co.	Quar. Sept. 30	.95	1.77
White (S. S.) Dental Mfg.	9 mos. Sept. 30	1.19	2.57
Alpha Portland Cement	Quar. Sept. 30	.90	1.27
Harbison-Walker Refractories	Quar. Sept. 30	.55	.76
Cone Mills	9 mos. Sept. 30	.51	1.06

the Business

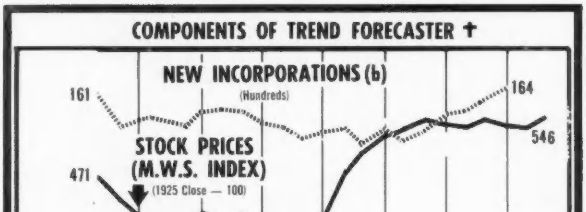
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, Industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a sustained advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually indicates that an important contraction is in the making.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Most of the components of the Trend Forecaster have strengthened in the latest month for which data are available, but changes in the longer term trends have counterbalanced each other, and as a result, the Relative Strength Measure has remained at its previous level.

In the latest month, six of the indicators advanced while two declined. Improvement was noted for new orders (up for the eighth consecutive month); housing starts, which reached their highest level in almost two years; business failures (inverted), which were much better; hours worked, which were back to their July peak; new incorporations, which were near their all-time high, and stock prices, which rose sharply in November. Further declines took place in industrial commodity prices and nonresidential construction contract awards.

The Relative Strength Measure remains at the plus $2\frac{1}{2}$ level where it is signalling further business improvement while a pick-up in the RSM would indicate a faster tempo for the recovery.

Analyst

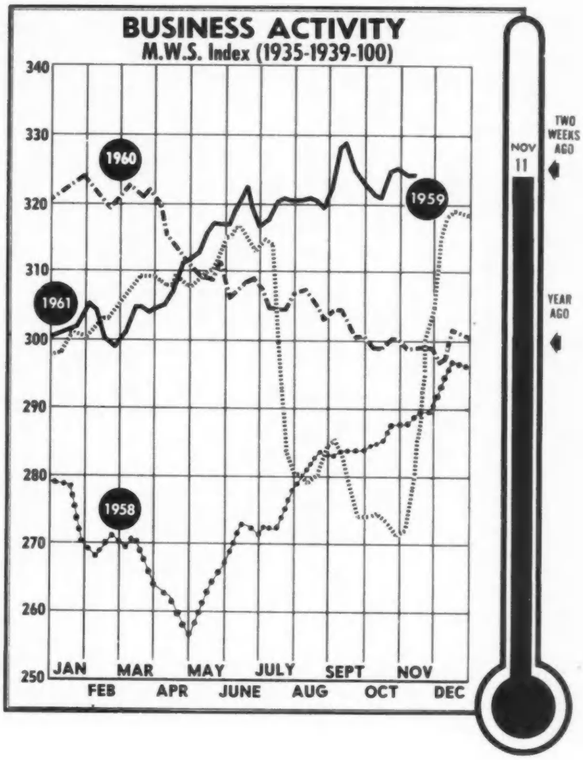
CONCLUSIONS IN BRIEF

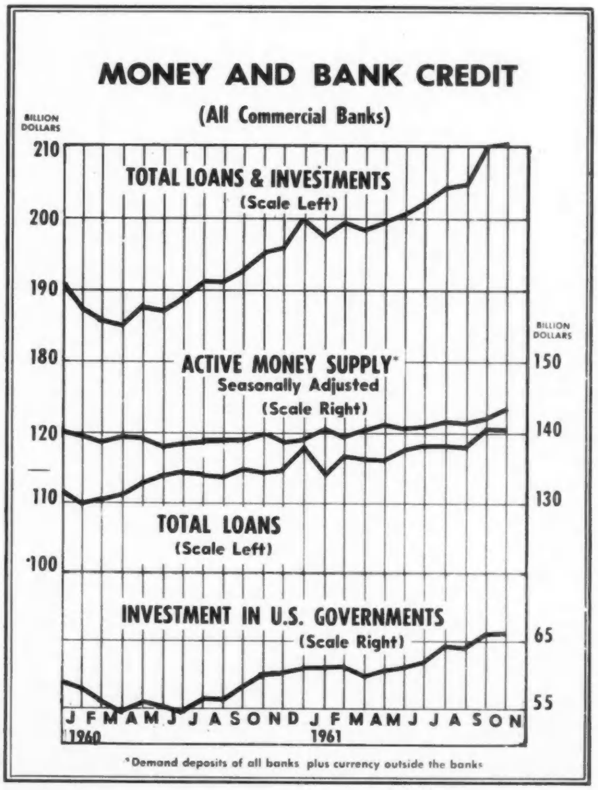
PRODUCTION — Industrial output now at all-time peak, with high auto production accounting for a good part of the advance. Further gradual gains in overall output appear to lie ahead, with stockpiling against a possible steel strike providing impetus to this key industry.

TRADE — Broad October gains in consumer buying appear to be continuing into November. Durables showing greatest gains, and soft goods sales are at record level. Expansion in retail sales expected to continue for some time.

MONEY & CREDIT—High-grade bonds decline on broad front, as signs of further business advance, and pick-up in borrowing by private and government sectors, discourage investors in fixed income securities. These factors are expected to continue, auguring lower bond prices in the months ahead.

COMMODITIES — Raw industrial material prices still under pressure, but farm products, some manufactured products are firming up. Modest recovery in broad price indexes expected as further business advance generates increased demand.





BROAD improvement for most of the major economic indicators took place during October, as further gradual business recovery, combined with the rush to make up for strike-induced shortages in the auto industry, gave impetus to the upturn.

Virtually every facet of the economy posted gains for the month, but there was special interest in the better performance of two sectors that had previously been lagging, namely retail sales and capital spending.

Retail sales finally broke out of their rut in October, amply confirming earlier indications of improvement in spending by the public. The rise for the month came to $450 million, pushing these sales to their second highest level on record. Judging by historical precedent, the October upsurge in consumer demand for goods arrived on schedule, eight months after the recession low for business in general and the record indicates that an uptrend in such spending is apt to last for a considerable time.

In the field of capital spending, the projected rise in outlays indicated by recent surveys has been buttressed by the broad gain in corporate appropriations for new plant and equipment that took place in the third quarter. The rate of appropriations is now above actual capital expenditures and this points to gains in such spending, at least through the first half of next year.

Improvement in October was hardly confined to retail sales and capital spending; in fact almost every major sector reported gains for the month.

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Oct.	172	169	161
Durable Goods Mfr.	1947-'9-100	Oct.	175	172	164
Nondurable Goods Mfr.	1947-'9-100	Oct.	169	168	159
Mining	1947-'9-100	Oct.	131	129	128
RETAIL SALES*	$ Billions	Oct.	18.6	18.1	18.5
Durable Goods	$ Billions	Oct.	5.9	5.6	6.1
Nondurable Goods	$ Billions	Oct.	12.7	12.6	12.5
Dep't Store Sales	1947-'9-100	Oct.	151	150	148
MANUFACTURERS'					
New Orders—Total*	$ Billions	Sept.	32.3	32.2	30.4
Durable Goods	$ Billions	Sept.	15.7	15.7	14.6
Nondurable Goods	$ Billions	Sept.	16.6	16.5	15.8
Shipments*	$ Billions	Sept.	31.5	31.5	30.1
Durable Goods	$ Billions	Sept.	15.0	15.1	14.4
Nondurable Goods	$ Billions	Sept.	16.5	16.4	15.7
BUSINESS INVENTORIES, END. MO.*	$ Billions	Sept.	92.7	92.1	93.1
Manufacturers'	$ Billions	Sept.	54.4	54.0	54.7
Wholesalers'	$ Billions	Sept.	13.6	13.6	13.1
Retailers'	$ Billions	Sept.	24.7	24.5	25.3
Dept. Store Stocks	1947-'9-100	Sept.	170	169	167
CONSTRUCTION TOTAL—t	$ Billions	Oct.	58.5	58.6	55.6
Private	$ Billions	Oct.	41.3	41.6	39.2
Residential	$ Billions	Oct.	23.6	23.7	21.8
All Other	$ Billions	Oct.	17.7	17.9	17.4
Housing Starts*—a	Thousands	Oct.	1442	1380	1236
Contract Awards, Residential—b	$ Millions	Oct.	1499	1620	1390
All Other—b	$ Millions	Oct.	1792	1620	1929
EMPLOYMENT					
Total Civilian	Millions	Oct.	67.8	67.0	67.5
Non-farm*	Millions	Oct.	54.6	54.4	54.3
Government*	Millions	Oct.	9.0	8.9	8.9
Trade*	Millions	Oct.	11.5	11.4	11.4
Factory*	Millions	Oct.	12.1	12.1	12.2
Hours Worked*	Hours	Oct.	40.1	39.5	39.5
Hourly Earnings	Dollars	Oct.	2.35	2.33	2.27
Weekly Earnings	Dollars	Oct.	94.71	92.50	90.12
PERSONAL INCOME*	$ Billions	Oct.	425	421	406
Wages & Salaries	$ Billions	Oct.	287	284	273
Proprietors' Incomes	$ Billions	Oct.	62	61	61
Interest & Dividends	$ Billions	Oct.	42	42	41
Transfer Payments	$ Billions	Oct.	33	33	30
Farm Income	$ Billions	Oct.	17.5	17	17
CONSUMER PRICES	1947-'9-100	Sept.	128.3	128.0	126.8
Food	1947-'9-100	Sept.	121.1	121.2	120.2
Clothing	1947-'9-100	Sept.	111.1	109.9	110.6
Housing	1947-'9-100	Sept.	132.6	132.3	132.0
MONEY & CREDIT					
Active Money Supply*—u	$ Billions	Oct.	143.8	142.2	139.9
Bank Debits*—g	$ Billions	Oct.	104.0	100.2	95.4
Business Loans Outstanding—c, u	$ Billions	Oct.	31.9	31.9	31.6
Instalment Credit Extended*—u	$ Billions	Sept.	4.0	4.1	4.1
Instalment Credit Repaid*—u	$ Billions	Sept.	4.1	4.1	4.0
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Sept.	8.9	6.4	9.0
Budget Expenditures	$ Billions	Sept.	6.8	7.6	6.8
Defense Expenditures	$ Billions	Sept.	3.8	4.1	3.8
Surplus (Def) cum from 7/1	$ Billions	Sept.	(2.4)	(4.6)	(1.2)

PRESENT POSITION AND OUTLOOK

Industrial production, which had receded a bit in September, mostly as a result of the General Motors strike and Hurricane Carla, rebounded to its August high, helped by a sharp rise in output by auto makers trying to make up for the earlier slowdown. Other indicators that were affected by these temporary depressants in September and came back strongly in October, included hours worked, employment and personal income. The gain in income was especially marked, with all the major recipient categories sharing in the $3.9 billion rise from the month before. Although the rate of gain was back to the high levels that prevailed in the early months of the business recovery, part of the jump represented a snap-back to compensate for the slowdown in September. Thus the rate of advance in the months ahead is expected to be more moderate.

New orders received by manufacturers of durable goods continued to move higher in October, with defense orders making a sizable contribution to the total. Deliveries of completed defense items are also beginning to rise swiftly and this should bolster manufacturers' sales figures for some time to come.

Despite the broad betterment that has taken place during October, a few laggards can still be found, among which construction and steel output are worthy of mention. Construction activity was off slightly from the previous month and the outlook for this important sector looks rather mixed. Residential building appears to be in line for further moderate gains, with both housing starts and residential construction contract awards continuing to expand. Contracts for nonresidential construction, however, are well under recent highs and this sector of the industry may have trouble in maintaining the current high rate of activity.

Steel output receded a bit in October and has failed to improve thus far in November. Most of the slowdown was a reaction from the previous rapid upsurge in output that pushed production above shipments in some cases. Developments in this industry may have an im-

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1961 Quarter III	1961 Quarter II	1961 Quarter I	1960 Quarter III
GROSS NATIONAL PRODUCT	526.0	516.1	500.8	505.1
Personal Consumption	342.0	336.1	320.7	329.7
Private Domestic Invest.	73.0	68.8	59.8	70.5
Net Exports	2.5	3.9	5.3	3.0
Government Purchases	108.5	107.3	105.0	101.9
Federal	56.9	56.6	54.7	54.0
State & Local	51.6	50.6	50.3	48.0
PERSONAL INCOME	420.3	413.2	404.7	405.1
Tax & Nontax Payments	52.5	51.5	50.4	50.8
Disposable Income	367.8	361.8	354.3	354.4
Consumption Expenditures	342.0	336.1	330.7	329.7
Personal Saving—d	25.8	25.8	23.7	24.6
CORPORATE PRE-TAX PROFITS		45.2	39.6	43.2
Corporate Taxes		22.4	20.0	21.7
Corporate Net Profit		22.4	19.6	21.4
Dividend Payments	14.3	14.2	14.2	14.1
Retained Earnings		8.6	5.8	7.6
PLANT & EQUIPMENT OUTLAYS	35.9	34.8	33.9	35.9

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Nov. 11	323.5	323.5	298.2
MWS Index—Per capita*	1935-'9-100	Nov. 11	228.5	228.5	214.7
Steel Production Index*	1957-'9-100	Nov. 11	109.8	109.7	78.8
Auto and Truck Production	Thousands	Nov. 18	191	187	180
Paperboard Production	Thousand Tons	Nov. 11	345	353	329
Paperboard New Orders	Thousand Tons	Nov. 11	318	388	272
Electric Power Output*	1947-'49-100	Nov. 11	300	299	273
Freight Carloadings	Thousand Cars	Nov. 11	605	619	565
Engineerings Constr. Awards	$ Millions	Nov. 16	534	255	474
Department Store Sales	1947-'9-100	Nov. 11	169	154	163
Demand Deposits—c	$ Billions	Nov. 8	62.4	63.4	61.4
Business Failures—s	Number	Nov. 9	336	344	298

PRESENT POSITION AND OUTLOOK

portant bearing on the trend of the entire economy during the first half of next year. Wage contracts expire at the end of June, 1962, and with the prolonged steel strike of 1959 still fresh in their minds, consumers may well be anxious to have adequate stockpiles on hand to guard against a similar emergency. This would require a substantial increase in output during the first half of 1962 and some industry sources are predicting that operations will be running around 90% of capacity for a good part of the period. Although the rate of stockpiling cannot be predicted with any certainty, there is every indication that steel demand will advance significantly in the not-too-distant future. Sharp gains for this sector, combined with indicated moderate uptrends for most other areas of the economy, should make for a worthwhile rise in overall business activity during the first half of 1962. However, part of these gains would derive from the artificial stimulus of a possible steel strike and business could be adversely affected when the drive to build up steel stockpiles comes to an end.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1961 High	1961 Low	1961 Nov. 10	1961 Nov. 17
Composite Average	551.7	454.7	549.4	551.7H
4 Agricultural Implements	497.2	389.3	431.6	423.9
3 Air Cond. ('53 Cl.—100)	176.9	124.9	155.9	155.9
10 Aircraft & Missiles	1393.5	1114.8	1232.7	1232.7
7 Airlines ('27 Cl.—100)	1163.6	854.4	984.6	976.4
4 Aluminum ('53 Cl.—100)	465.6	329.1	353.2	333.2
5 Amusements	427.0	312.5	371.3	365.1
5 Automobile Accessories	503.9	418.6	475.5	475.5
5 Automobiles	129.8	92.6	131.7	125.3
3 Baking ('26 Cl.—100)	44.6	37.4	41.0	41.0
4 Business Machines	2151.6	1317.0	2151.6	2151.6
6 Chemicals	887.1	745.5	857.3	864.8
3 Coal Mining	42.5	29.8	42.5	41.3
4 Communications	257.6	220.5	251.0	253.2
9 Construction	242.0	177.7	236.9	242.0H
5 Container	1135.0	883.7	1091.7	1083.0
5 Copper Mining	399.3	291.9	349.8	347.0
2 Dairy Products	263.0	201.9	263.0	254.9
5 Department Stores	234.1	151.0	228.0	234.1H
5 Drugs-Eth. ('53 Cl.—100)	485.1	387.3	465.5	485.1H
5 Elect. Eqp. ('53 Cl.—100)	419.7	326.8	412.8	419.7H
3 Finance Companies	1163.9	802.7	1099.7	1131.8
5 Food Brands	936.8	557.6	892.2	936.8H
3 Food Stores	333.6	255.2	328.5	333.6H

(Nov. 14, 1936 Cl.—100)	High	Low	Nov. 10	Nov. 17
High Priced Stocks	351.9	288.5	348.5	351.9H
Low Priced Stocks	729.8	578.6	701.9	702.5
5 Gold Mining	1226.0	930.4	1039.9	1116.5
4 Investment Trusts	173.5	144.1	170.7	170.7
3 Liquor ('27 Cl.—100)	1548.9	1208.6	1466.8	1455.0
7 Machinery	647.3	506.2	574.3	579.2
3 Mail Order	498.3	409.2	486.1	498.3H
4 Meat Packing	313.9	262.0	298.3	295.7
4 Mtl. Fabr. ('53 Cl.—100)	208.6	147.4	178.3	175.5
9 Metals, Miscellaneous	483.4	352.5	466.6	463.3
4 Paper	1158.9	952.6	1129.4	1119.6
16 Petroleum	828.6	714.3	750.0	750.0
16 Public Utilities	528.4	400.3	524.4	528.4H
6 Railroad Equipment	111.7	83.8	104.5	108.5
17 Railroads	61.8	52.9	59.7	61.8H
3 Soft Drinks	1171.6	946.7	1124.8	1171.6H
11 Steel & Iron	424.3	359.8	383.5	376.7
4 Sugar	86.3	74.0	87.0	81.5
2 Sulphur	874.7	705.4	747.7	768.9
11 TV & Electron. ('27—100)	130.4	98.5	127.5	127.5
5 Textiles	266.2	198.2	264.2	266.2H
3 Tires & Rubber	248.0	184.6	238.9	244.4
5 Tobacco	355.7	231.8	346.5	355.7H
3 Variety Stores	416.5	356.5	406.0	416.5H
16 Unclassifd (49 Cl. — 100)	337.7	341.5	295.5	297.8

H—New High for 1961.

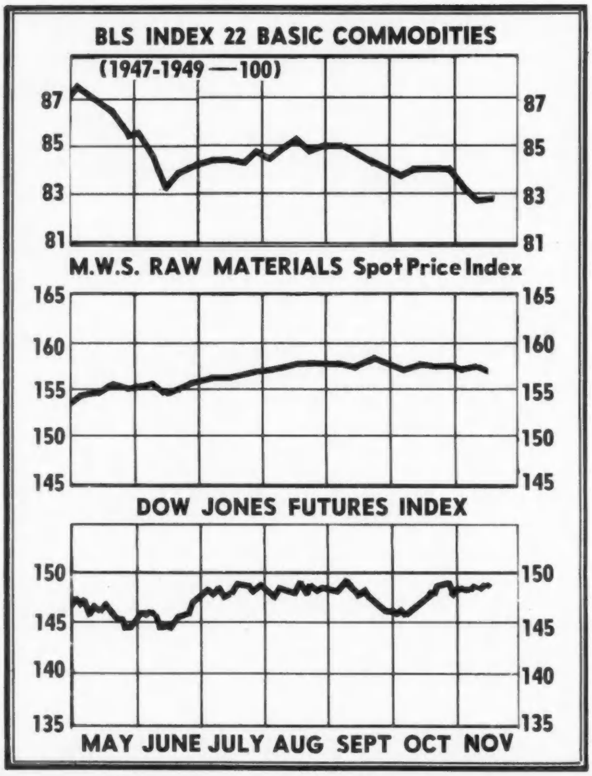
Trend of Commodities

SPOT MARKETS—Industrial raw materials continued to give ground in the two weeks ending November 17. Metals were still under pressure and that component of the BLS daily index of 22 leading commodities fell 1.9% during the period. Although raw foodstuffs were higher, the overall index was down 0.6%, to close at 82.6, not far from the year's low. Among industrial materials, copper scrap, lead scrap, steel scrap, rubber and tallow all declined during the period; tin and wool were higher and other industrial materials held unchanged.

Despite the weakness in some industrial materials, the broad range of commodities have shown firming tendencies in recent weeks. Farm products were in demand and non-food products also were higher on balance. Continued firmness in overall commodity indexes is expected in the months ahead, as business recovery makes further progress.

FUTURES MARKETS—Futures prices were quite mixed in the fortnight ending November 17, although declines outnumbered advances. Commodities which were lower during the period included corn, oats, rye, lard, cotton and copper, while higher levels were reached by wool, coffee, cocoa and rubber. No definite trend was displayed by wheat, soybeans and hides. In these commodities, one month was higher while another declined. The Dow-Jones Commodity Futures Index advanced 0.4 points during the period, mainly due to strength in coffee and cocoa.

Wheat futures were steady as a rock in the period under review. Old crop futures were unchanged and new crop options only moved ¼ point either way. Export volume remains at high levels and farmers appear disinclined to sell. Outlook for continued high exports and the support program should make for price firmness.



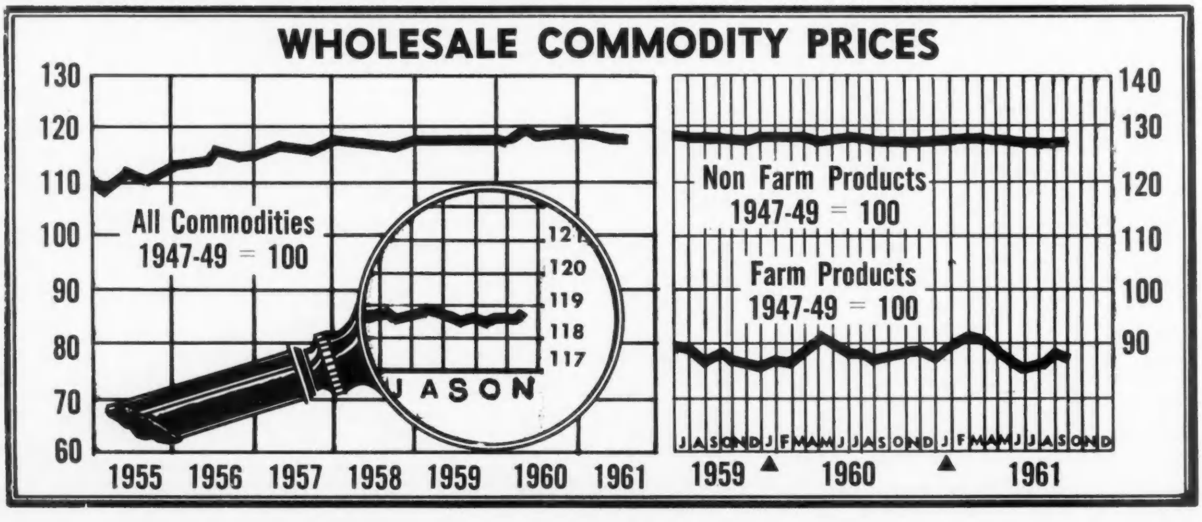
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Nov. 14	118.7	118.6	119.6	60.2
Farm Products	Nov. 14	87.3	86.3	89.9	51.0
Non-Farm Products	Nov. 14	127.4	127.3	127.9	67.0
22 Sensitive Commodities	Nov. 17	82.6	83.1	82.8	53.0
9 Foods	Nov. 17	75.3	74.8	75.8	46.5
13 Raw Ind'l. Materials	Nov. 17	88.0	89.2	87.9	58.3
5 Metals	Nov. 17	89.2	90.9	88.2	54.6
4 Textiles	Nov. 17	84.3	84.3	80.3	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1961	1960	1959	1953	1951	1941
High of Year	158.4	160.0	161.4	162.3	215.4	85.7
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	149.0	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1



Is Upswing In Sight For Machine Tools?

(Continued from page 301)

product mix. While the stock does not appear cheap at around 23 times earnings and a 3.4% yield, it does have further recovery potential. Liberalized depreciation allowances could help to bring this about.

Ex-Cell-O (42). Machine tools account for somewhat over 20% of volume, precision products (mainly aircraft parts) contribute nearly 50% of volume, and the Pure-Pack machines that produce paper milk containers most of the balance. With higher defense spending both sales and earnings are expected to improve modestly for the year ended November 30, 1961 over the $138 million and $2.23 a share reported last year. The higher backlog promises a further gain next year, and on this basis the stock with a 3.5% yield appears moderately attractive.

Monarch Machine Tool (18). This leading producer of automatic and semi-automatic lathes has suffered from increasing competition, higher labor costs, and a low level in the buying cycle of machine tools. During the Korean War shipments reached $32 million (in 1953), when the company earned over $4.00 per share, but the following year shipments dropped to $18.3 million and the next year plummeted to $9.8 million. In 1960 shipments were little better, at $10.4 million. It is a credit to management that the company has shown a profit in each of these difficult years. The stock has just increased the dividend, raising the 1961 payment to 80¢, yielding 4.4%, and earnings this year should be somewhat ahead of last year's $0.99 per share. The thinly traded stock may be held as a speculation for cyclical recovery.

National Acme (52) is the largest producer of multiple spindle automatic screw machines. Suffering from the cost-price squeeze this year, earnings may decline to about $2.50 from last year's $3.55. While the stock appears expensive in this light, recovery potential is apparent. In 1956, when the stock sold as high as 82, the company earned $8.60 a share on a volume of $36.2 million, but it is apparent that a return to this volume from possibly $26 million in 1961 would produce lower earnings than in 1956. The $2.00 dividend seems safe with the outlook improving somewhat, and provides a better than average yield of nearly 4%.

Sundstrand Corp. (18). This company makes aircraft and missile components which account for nearly 65% of total volume, hydraulic equipment (10%), and special-purpose machine tools (25%). Thus, government expenditures for aircraft and missiles are more controlling than the machine tool cycle. The leading aircraft product is a constant-speed drive to stabilize the flow of power from the engines to the aircraft's electrical systems. Every plane engine needs one, and they wear out fairly frequently, so there is a large replacement market equal to about 35% of shipments. Final profits for 1961 depend to some extent on renegotiation of defense contracts and claims for recovery of excess development costs; some improvement over last year's $1.23 seems possible. The 50¢ dividend provides a 2.7% yield, a modest return relative to several other machine tool companies.

United Greenfield (16). This company pays a dividend of $1.10 to provide a 6.9% yield, but earnings will be down this year from $1.55 in 1960 and the dividend may not be fully covered. In 1960 metal cutting tools accounted for 37% of volume; thread cutting tools, taps, and dies 21%; drop forge hand tools 20%; commercial drop forgings 13%; and other products 9%. A large part of this volume consists of expendable tools that wear out with use. Hence the outlook to some extent depends upon industrial activity as well as outlays for new machines. The stock has speculative possibilities if earnings can get back to the peak rate of $2.57 achieved in 1956. However, operating margins have eroded from 20.2% to 13.1% since then, and full recovery does not seem to be a near-term possibility. END

NATIONAL STEEL'S MILL OF

This new 80-inch hot-strip mill at Great Lakes Steel in Detroit—the fastest, most powerful in operation today—advances the art and science of rolling steel a giant step forward. It sets new standards for efficiency while providing auto body sheets and other sheet steels of the highest, most uniform quality yet produced.

Here's how the Mill of the Future goes about it: Four slab reheating furnaces—the largest ever built—feed the new mill. Together, these furnaces have a capacity of 1,000 tons of 30-foot-long steel slabs every hour. The rolling process itself will be masterminded and controlle by the mill's closed system computer. Coming up with as many a 44,000 computations a minute, it will monitor quality at 200 points alon the 2,000-ft. line—keeping thickness, width and temperature right o target at all times. The outcome: giant economy size coils—up to 7 inches wide, 72 inches in diameter and weighing up to 70,000 lbs.—t help manufacturers make their own production more economica

This 80-inch mill is only one accomplishment in a program o

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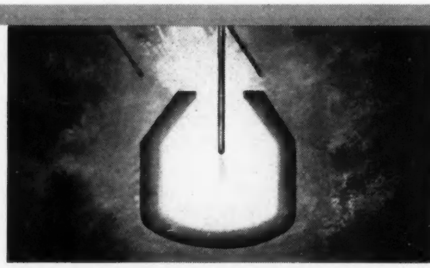
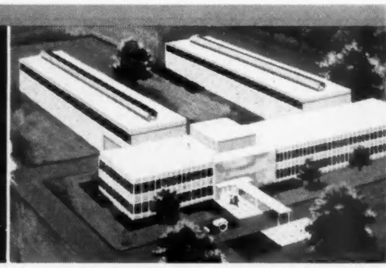
FIVE OTHER MAJOR STEPS TO FURTHER PROGRESS



NEW BASIC OXYGEN FURNACES at Great Lakes Steel. To be completed in 1962, two basic oxygen furnaces—the largest ever built—which will add new capacity and greater efficiency.



OUR NEW RESEARCH CENTER will be National Steel's headquarters for the expanded, continuing exploration of new and better raw materials, facilities, manufacturing processes and products of steel.

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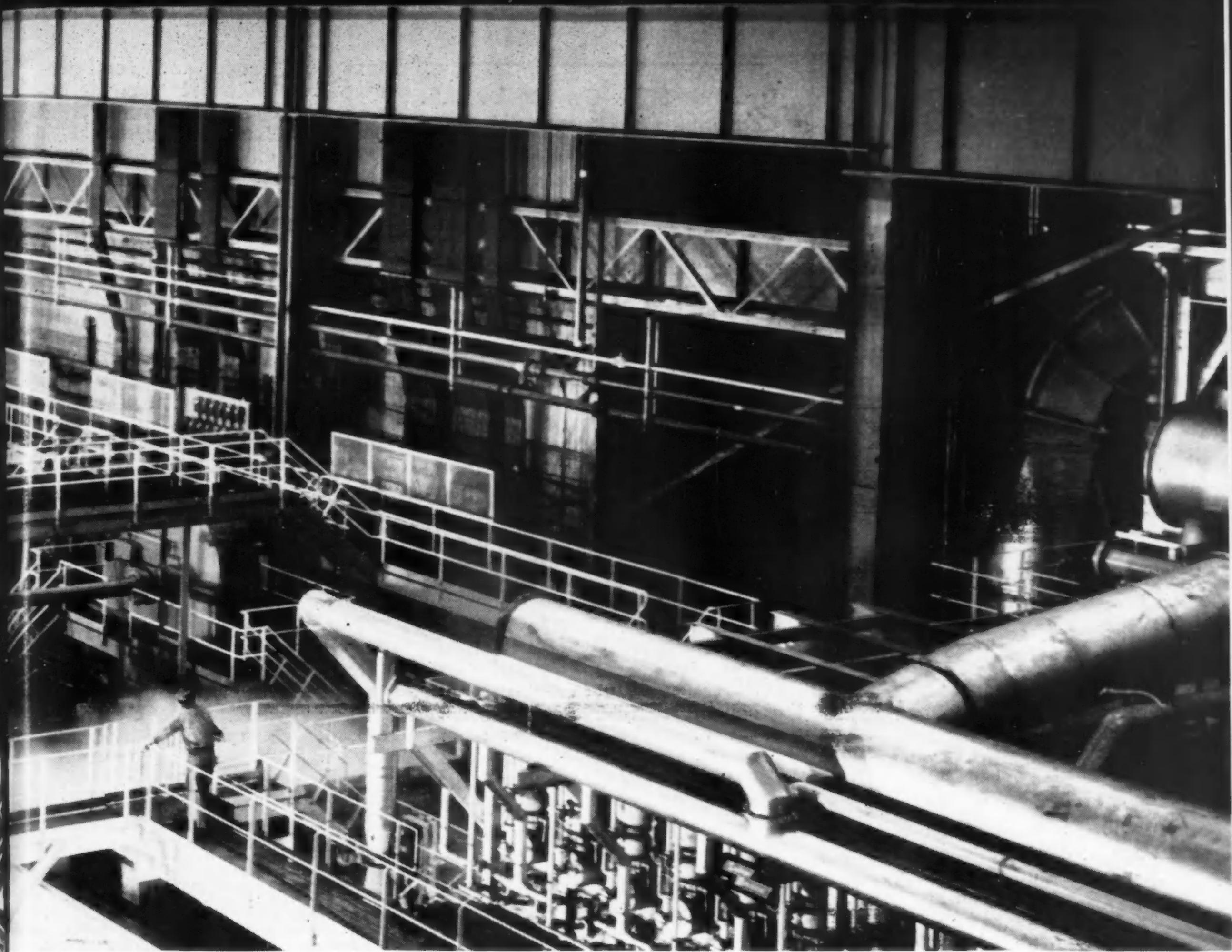

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expansion and improvement in which National Steel is investing well over $350,000,000. Among the program's far-ranging benefits: higher efficiency and greater stability throughout our operations, with better, more secure jobs for our employees; a better supply of the highest, most uniform quality steel for our customers; and better values for you, the ultimate consumer of the million and one products made of steel. Other phases of this program will swing into action soon. And we will be bringing you news about them, too.

NATIONAL STEEL CORPORATION, PITTSBURGH, PA.

SUBSIDIARIES AND DIVISIONS:

GREAT LAKES STEEL • WEIRTON STEEL • MIDWEST STEEL • STRAN-STEEL • ENAMELSTRIP • HANNA FURNACE • NATIONAL STEEL PRODUCTS

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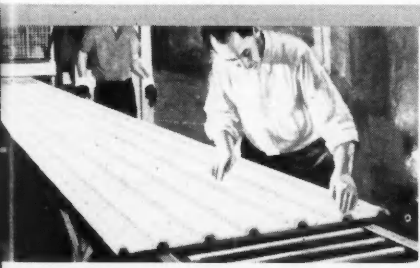
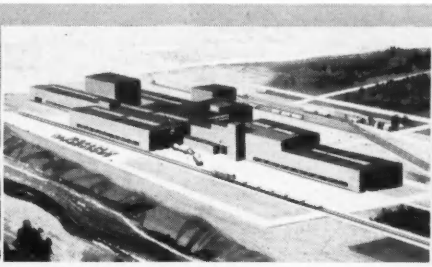
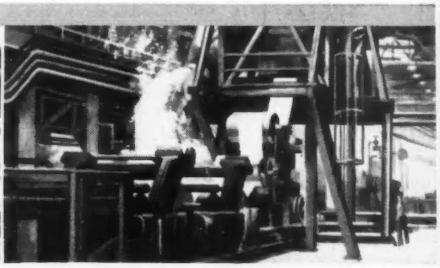


STRAN-STEEL in Terre Haute, new finishing-line ilities are boosting quality and output of popular or-coated steel panels for Stran-Steel's handsome w line of contemporary pre-engineered buildings.



AT MIDWEST STEEL near Chicago, the most modern and efficient steel finishing plant in existence is now providing industry with the finest quality galvanized sheets, tin plate and hot- and cold-rolled sheets.



AT WEIRTON STEEL in Weirton, W. Va., new and improved facilities throughout this division increase the production and improve the quality of Weirton's tin plate, galvanized sheets and cold-rolled sheets.

Dynamic Sales Growth by U.S. Companies In Overseas Markets

(Continued from page 278)

the fact that some 40% of all direct investment outlays for overseas plant and equipment installations are actually spent in the United States, thereby boosting our capital goods exports.

But how about the claim that setting up factories overseas is exporting American jobs. In actuality, often the alternative is not between manufacturing abroad or exporting from the United States, for if this were the case an American company would prefer to keep its production operations at home where problems arising from political risk, devaluation danger, and the language barrier are all at a minimum. **Manufacturing subsidiaries are established abroad only when competitive conditions require this expedient to overcome such disadvantages as high transport charges, import restrictions, tax discrimination, or unequal labor and material costs.**

Appraising Our Choice Realistically

The choice for American manufacturers often is between serving a foreign market on-the-spot, or not at all. In such case, any sales and profits attained are a clear gain. But this is not the only gain. U. S. owned plants overseas often require substantial material and component shipments from the United States. A Commerce Department survey estimated that U. S. manufacturing firms abroad imported over $1 billion worth of non-capital goods from the United States in 1957, and that the total for all direct investment companies abroad was probably as much as $2 billion that year. The figure may have grown since then.

► There remains the allegation that some American companies are establishing themselves abroad only to profit by cheap labor, and that they are then flooding the U. S. market with goods that displace American-made products. A look at the statistics dispels this nation. According to the Government survey cited above, some $3½ billion of U. S. imports in 1957 were from American subsidiaries abroad. However, the bulk of these imports are crude and semi-processed raw materials such as petroleum, mineral ores, timber, and foodstuffs like bananas.

Only $1 billion of these 1957 imports were broadly classified as manufactured goods, and nearly 80% came from U. S. companies in neighboring Canada (hardly a cheap labor country) and consisted mainly of newsprint, woodpulp, and refined aluminum. Imports from American firms in Europe were about $200 million, with automobiles and parts the largest item. An updated Government survey for 1960 made at the request of Congress indicated approximately the same distribution, except for a drastic drop of more than $100 million in imports from Europe due to the successful introduction here of U. S.-made compact cars.

Thus the record shows clearly that U. S. firms go overseas either to develop raw material resources needed for American industry or to gain access to consumer markets they can not reach by traditional export means. END

The Administration's Economic Policy—What It Will Lead Us To

(Continued from page 274)

in productivity might have to be applied to keep labor costs from getting out of hand. Only in the event that an attack is made on these fundamental factors would it be reasonable to suppose that an attempt to hold the line on prices would stand some chance of success.

The Practical Economists Speak

It was recently reported that perhaps the most important single step on the subject of where to place the blame for inflation was a report published early this year under the auspice of the *International Organization for Economic Cooperation and Development*. Written by six economists of different nationalities and differing political views, a unanimous verdict was reached on two major questions that have plagued economic debate for a decade.

► **First, they said inflation — rising prices — can occur even without excessive demand. In other words the "cost-**

push" theory is borne out by the facts.

► Second, they added, as between the wage push by organized labor and the "pricing power" or excessive profits by business, the wage push is overwhelmingly the more important in driving up prices.

► They found that in the Atlantic nations, the "administered price" cause of inflation was significant only in the United States and there only in a few industries.

A significant statement of a member of a recent business economist's group meeting was that "government is going to have to act as though it thought business was more of an ally than an enemy." A good deal of lip service has been given recently by leading members of the Kennedy Administration to the idea that the Administration is not anti-business. However, it is no secret that many leaders of business regard Dr. Heller's economic philosophy with suspicion or lack of confidence, which played an important part in the rupture last spring between the former Business Advisory Council and the Administration. The word "advisory" was dropped from the Council's name and it broke its formal government ties after Secretary of Commerce Luther A. Hodges insisted on some changes, including a Government voice in the selection of members and meetings open to the public, whenever a Government official spoke.

Anti or Pro Business?

On the question of the Administration's friendliness to business, the action of the Administration and its leaders speak more loudly than its words.

• The insistence on welfare-state social programs involving large increases in Federal expenditures is one of these actions.

• The pooh-poohing of the importance of a balanced budget is a related action causing concern to businessmen.

• Also related to this cause of concern is the downgrading of the importance of profits.

• Furthermore, the action of the Justice Department in instituting lawsuits against a large percentage of the major corporations certainly seems to reflect an attitude of hostility rather than friendliness toward large corporations. While there can be no quarrel with fair and forceful enforcement of the antitrust laws, the tendency to confuse bigness with monopoly and to stretch the antitrust laws to cover "tendencies toward diminished competition" seems to go beyond fair and impartial enforcement of the anti-trust laws.

• Nor are the public ownership schemes of Administration adherents compatible with a friendly attitude toward business.

It is regrettable that a time of national and international emergencies, when all our resources and talents are needed in the battle with Communism, that there should be suspicion and a relatively high degree of anomosity between our government and our business leaders.

Let Business and Government Get Together

It is to be fervently hoped that before long some basis for a reconciliation of views and objective between government and business can be achieved. However, this may well involve some fundamental changes in the political and economic views of some government leaders. It may also involve a willingness on the part of business leaders to go halfway in any sincere attempts to effect a reconciliation. The politicians will have to stop using business leaders as targets for pot-shots to be exploited for maximum political gain. And the businessmen will find that his best weapons are facts, patience and an even temper.

There are no unfavorable basic factors in this country's current economic and business outlook which cannot be corrected by a sound approach to the problems which we face. The greatest danger lies in a tendency to put political considerations ahead of the economic facts of life. Fortunately, however, the American public seems to be aware of the dangers of excesses in Federal spending. The failure of several of the major domestic spending programs of the Kennedy Administration in the last session of the Congress reflected a tendency toward fiscal conservatism on the part of the average voter. Recent retrenchment moves by President Kennedy indicate that he is aware of the political risks in-

volved in being tagged as fiscally irresponsible. Not only would such a label, if made to stick, be highly dangerous politically, but it would also carry with it the possibility of a loss of confidence in the dollar. So serious would be the international economic and military implications of a loss of confidence in our currency that it seems highly unlikely that unnecessary risk will be assumed. Regardless of the platform promises and leaning of the Democratic Party and the Kennedy Administration, the force of events is requiring partial abandonment or at least postponement of nonessential social welfare programs.

► **While adherence to conservative fiscal policies would necessarily carry with it an element of at least temporary contraction rather than economic expansion, the longer run implications of such policies would be beneficial. Lasting prosperity can be built only on a solid foundation of sound fiscal practices. Too rapid an upswing might not be likely to prove sustainable. Thus the question of the pace of business recovery at the present time should be considered of less importance than whether the basis for recovery is being built on principles of sound fiscal and economic policies or whether it is being built on the shifting sands of inflationary government spending programs.** END

Materials Handling Industry

(Continued from page 295)

January, 1960. The company also cited the disturbing effect on sales and prices resulting from importation of some foreign materials. Chain-Belt felt the impact of increased wages at all plants, as did most others in the industry. Clark Equipment was adversely affected in 1960 by a strike at one plant of its Brown Trailer Division. More recently, strikes were called at two Clark plants producing fork lift trucks and other materials handling equipment. According to Hewitt-Robins, conveyor belt prices last year were as much as 20% below those prevailing as far back as 1955. Although cost reduction moves have enabled Koehring to report increased profits during the current fiscal year, it has been damaged by strikes at several plants for varying periods of time.

Labor problems also prevail at Yale & Towne's largest plant in Philadelphia, which has been out on strike since August 31st. Although management has offered a substantial increase in pay and benefits the union has refused to go along with proposed elimination of certain production-restriction practices. Higher costs have been particularly harmful under recent competitive conditions. As an example, the company's business in hand trucks has been severely affected by low-priced foreign imports. Yale & Towne has more than enough capacity to meet present needs in this country and may not require additional facilities until 1963. With present capacity it could handle roughly $160 million of business under ideal conditions while sales last year reached a peak of $137 million. This capacity-sales relationship is undoubtedly more favorable than that of the industry as a whole.

Favorable Aspects Pointing to Improved Profits

Of course, a sharp rise in industrial activity, accompanied by a substantial boost in expenditures for new plant and equipment, could materially alleviate most of the problems confronting producers of materials handling devices. In view of existing excess plant capacity in most industries, a marked expansion of facilities does not appear likely.

However, indications are that some type of legislation will be enacted by the Government providing for partial tax relief or other incentive to those companies contemplating capital spending programs. This could be of considerable benefit to producers of materials handling equipment. It not only would help them directly through tax savings in connection with their own capital projects but should also increase demand for their products, which are a necessary part of most industrial facilities. Also, rising labor costs tend to stimulate demand for labor-saving devices typical of those turned out by makers of materials handling equipment.

► ***Foreign Markets*** — Most companies in the industry have already taken steps toward increased penetration of the rapidly expanding and more profitable foreign market. Activities in this area are being intensified. Companies now strongly represented abroad, including Yale & Towne, Joy Manufacturing, Harnischfeger, American Chain & Cable and Clark Equipment, should benefit considerably from future growth outside the U. S. A number of concerns, including Bucyrus-Erie, Hewitt-Robins and Joy Manufacturing have substantial foreign earnings which are not reported in per share profits.

► ***Replacement***—The replacement element could be of increasing importance to the industry in the years immediately ahead. Sales of materials handling apparatus were exceptionally high during the Korean War and in 1952 exceeded that of any succeeding year with the exception of 1959. Such equipment is now at the age where it should pay to trade it in for new.

► *Government Spending*—Increased Government spending is likely to mean greater business for the industry—particularly in the area of cranes and hoists which are used at missile-launching sites.

Harnischfeger recently received a $2.3 million order for truck cranes in connection with the Minute Man Missile project in Montana.

Manning, Maxwell & Moore is giving particular attention to the materials handling aspects of the expanding missile programs. It is working on specialized handling equipment for the nuclear and aerospace programs. The company's Gauge and Instrument Division is also increasing its sales of instrumentation to the Government for use in missile testing and launching as well as for other aerospace projects.

New Product Research

Future prospects are also brightened by ever-increasing emphasis on research and development to improve and expand product lines. Yale & Towne and Towmotor have both introduced compact lift trucks designed to move in restricted areas. Clark Equipment is considering the development of vehicles which are controlled by air pressure, permitting efficient movement of loads with virtually no friction. Joy Manufacturing has developed a "Pushbutton Miner," an electronically controlled mining system for removing coal. It can be operated by one man. American Chain & Cable has introduced a new gas flow computer which permits gas companies to operate more efficiently and give better service to their customers. Link-Belt has offered new conveyor installations incorporating automatic selectivity and sorting devices. As new technological developments arrive, existing products become obsolete and demand for the new, more efficient machines is stimulated.

The producers of materials handling equipment have been aggressively seeking new ways of making their own production facilities more efficient. Large amounts have been spent to modernize, consolidate and relocate facilities in areas where cost savings are available. Further progress in this area can be expected. However, it is doubtful whether resultant cost savings can fully offset rising labor and miscellaneous costs except during occasional periods of "belt-tightening" such as that witnessed during the past year.

Relatively Well Situated Companies

There is no question but that the earnings performance of the companies included in this review have been below average for the most part. Those companies heavily engaged in the construction and mining equipment field have been particularly hard hit. Of the 14 companies reviewed, the great majority reported peak profits in 1956 and 1957. For a number of companies, 1961 will mark the worst earnings performance in recent years. In the majority of cases, however, results will be above the depressed level of 1958.

Market prices for these stocks appear to have gone a long way toward discounting the obvious fact that earnings and dividend performances have not been good, in most cases. On average, their recent prices show a decline of 25% from market values at the end of 1956 and many of them are down substantially from the highs established earlier this year. This performance compared very poorly with the generally recognized industrial averages which are now near their all time peaks, showing gains of almost 50% since the end of 1956.

Recognized industry leaders such as Clark Equipment and Yale & Towne have experienced relatively better market performances within the group although far below that of the industrial indexes. From the standpoint of sound participation in potential future growth of the industry, both here and abroad, they are worthy of investment consideration.

American Chain & Cable provides a liberal yield and offers good value. Earnings next year are expected to reverse the downward trend of the past two years. Joy Manufacturing should show improved results in time, aided by large overseas activities.

Although this is less than an exciting picture the industry is an essential one. It has two present measures of investment attraction in the form of relatively low prices of most stocks and the possibility from several sources of some more favorable turn. END

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(signed) C. G. WYCKOFF
Publisher

STATE OF NEW YORK }
COUNTY OF NEW YORK }

Sworn to and subscribed before me this 3rd day of October, 1961.

(signed) HARRY KURLAND
Notary Public, State of New York
Qualified in Queen County
No. 41-7386600

[SEAL] Cert. filed in New York County
(My commission expires March 30, 1962)

Realistic Gauge To 1962 Business Activity

(Continued from page 281)

to come. Nevertheless, a year ago the backlog was $143 million; and the discrepancy indicates that steel companies have been accepting shipment of rolling mills but have done ilttle reordering.

This situation should reverse itself soon. As steel industry operations pick up, Blaw-Knox's output of parts and equipment for the mills should rise accordingly. Nevertheless, the company's backlog position should be watched carefully over the next few months, since it may provide a key to steel industry attitudes towards the future trend of business.

Capital spending lagged in the steel and other basic industries, but in the railroad industry it literally fell away to nothing. Hence, it is not at all surprising that backlogs for the producers of rail equipment have evaporated. **American Steel Foundries,** which specializes in castings for the rail industry, has been particularly hard hit. A year ago backlogs stood at $25 million, and the company had just completed a highly prosperous year. This year figures published in September show a 28% drop to $16 million. Earnings have also been lagging behind the year-earlier figures, and few signs of a turn for the better can be discerned.

New York Airbrake confirms the dismal outlook in this industry. Its backlog declined to $14.7 million from $15.7 a year ago, despite smaller shipments so far this year. About the only bright spot to be espied is the three month rise in backlogs for **American Brake Shoe.** Backlogs were actually $3 million higher in September than they were in June, 1961, but this probably reflects a single big order. In any event, until the backlogs of other rail equipment producers begin to climb, the future must be assumed to be bleak.

Confusing Construction Industry Picture

In the rail equipment business the situation described is industry-wide. In other areas, however, some variation appears among the different companies. Construction, for example, covers a broad span of companies and subgroups. Fortunately, most indicators of construction activity seem to tell a story of record building ahead. From the backlog positions of many companies, however, it is apparent that the boom will be a selective one.

On the promising side, **Bucyrus-Erie,** a major producer of power shovels and related equipment, finally shows signs of pulling out of its long dry spell. Figures released this fall show that as of September 30, 1961, the company's backlog stood at $37.3 million, or just about double the figure of a year earlier. **But a piece of very late news casts some doubt on the optimistic conclusions to be drawn from this upswing. President Kennedy has just ordered a slowdown in the outpouring of federal funds to the states for highway projects,** and it was principally state road projects that swelled the company's order position. The President's position is hard to argue against. He maintains that heavy federal outlays were authorized as an anti-recession measure. With the recession now apparently over, he is heeding, in one small way at least, the call for some restraint in federal spending. Although this action will hurt the construction equipment companies, a start must be made somewhere.

Other companies tied to construction already show declines in backlog. **Raymond International,** a major heavy engineering firm, has suffered a slowdown in new bookings, and as a result its backlog is now $13 million below a year ago. Not all of Raymond's troubles stem from domestic problems. The company is an international contractor carrying on construction projects in many areas of the world, and some of the slowdown reflects competition from foreign companies eager for a slice of the lucrative construction contracts available around the world.

A. G. McKee, another major construction outfit, presents a similar picture with backlogs down to $52 million from $65 million a year earlier. On the other hand, **Fluor Corp.,** a major builder of refineries and chemical plants, reports its new business is on the upgrade. Backlogs climbed substantially over a year ago, reaching $122 million at mid-year compared to only $99 million one year earlier.

Curiously, more construction companies are reporting declining backlogs than advancing order positions, despite the confident predictions of higher construction activity ahead. Needless to say, if the predictions are to be borne out there will have to be substantial ordering soon.

Otis Elevator, the major producer of elevators for building, should certainly reflect major construction trends; yet its new bookings were only $148 million through September, compared to $169 million a year ago. This may be a false picture, however, since part of last year's order position may have been for bowling machines under the subsequently cancelled contract with Brunswick.

Some indication that Otis' order position may be misleading comes from the **Worthington** figures. Although not strictly a construction company, Worthington is a leading producer of pumps and air conditioning equipment for large installations. Here the backlog position is better. In mid-October the company reported $77 million on the books

compared to $62 million a year earlier, indicating an acceleration in major building contracts, especially in the big cities where speculative real estate operations are booming.

Other Significant Clues

Backlogs very often tell interesting tales, but at the moment it is still too early in the upswing to draw firm conclusions. Backlogs are always drawn down in a recession and it takes many months of recovery before businessmen begin to think realistically of major capital spending programs again.

Some individual companies do, however, provide clues that should be studied. **American Machine & Foundry** has enjoyed several years of mounting orders but this fall the company reported a sharp decline in its backlog to $155 million from $240 million last year. Undoubtedly bowling installations are reaching a saturation point until foreign demand picks up where the domestic market left off. But probably AMF's backlog decline also reflects the completion of some important defense contracts. The company is situated well enough to gather in sufficient defense business to replace the orders that have run out, but if bowling is really slowing down, its earnings picture could be adversely affected over the next two or three years.

Raytheon is also of interest because after a sharp decline in backlogs last year the picture has now reversed again. Recently the company reported that on October 1, 1961, its backlog of government orders alone was up to $360 million from $320 million as recently as June. This is significant since Raytheon's earnings had begun to slow down after several years of spirited recovery. A new uptrend may now be in the making.

Collins Radio is in the opposite position. For several years its backlog position was building up, but this year it has begun to slip. In July the company reported a back order position of $157 million compared to $190 million twelve months earlier. More serious is the fact that a sharp decline in earnings has accompanied the withering of the backlog position.

Collins has been a leading producer of defense communication equipment and will undoubtedly get its share of future orders, but for a while the earnings situation will be less buoyant than in the past.

Evidence to Date Still Requires Confirmation

Within the next six months industry must begin to raise its capital spending sights or the present business recovery will be over before it has half begun. New orders and backlogs are a valuable guide to spotting this capital spending trend, but so far the evidence is too sparse to warrant major conclusions. If, however, sales continue to rise and inventory position build up at the same time, it is a good bet that a more pronounced upturn in capital outlays will follow. The dimensions of the trend should be noticeable by year end. In the meantime all we can do is to keep our fingers crossed. END

Boeing vs. United Aircraft

(Continued from page 298)

United found it had been so busy building its family of piston engines that it had not found the time to develop jet turbine engines, which had made their appearance during the war. It soon became apparent that jet engines would replace piston engines for most military and long-range commercial aircraft. To make matters worse, while United had been so intent on building piston engines, some of its competitors, namely, General Electric, Westinghouse, the Allison division of General Motors and Rolls Royce, had been hard at work on jet engines.

In order to salvage its position as the leading aircraft engine maker, United embarked on a crash program and spent a great deal of time and money to catch up with its competitors. It succeeded handsomely. In 1950 the company introduced the J-57, an engine that doubled the thrust of existing jets and at the same time offered significant fuel economies. The J-57, and its sister the J-75, soon dominated the jet engine field and once again United was on top.

Rapid Saturation of the Jet Engine Field

Its domination of the jet engine field has continued, as United's engines are used on both Douglas and Boeing commercial jet transports, the B-52 bomber, the KC-135 tanker and a host of other aircraft, missiles and drones. Although United will likely remain on top in the jet engine field there appears to be little, if any, growth left in this business. The commercial airlines are faced with problems of overcapacity, reducing the likelihood of further significant demand developing in this market over the foreseeable future. Commercial jet cargo planes are expected to become important items in the future, but it is very doubtful that they will ever be produced in the volume necessary to take up the slack resulting from the decline in military aircraft procurement.

The fact that the jet engine business had become mature, coupled with the realization that the most promising engine field for the future would most probably be in solid-fueled rockets, led United in 1958 to establish United Technology Corp. to conduct research and development in solid fuels and to eventually build rocket engines. **The potential of the rocket engine field is staggering; it is estimated that $1 billion annually will be spent in this area within the next several years.**

Once again United was late in entering the field and once again it encountered an imposing group of well-established competitors. The competitors are Aerojet-General, a subsidiary of General Tire; Thiokol, Lockheed's *Grand Central Rocket;* Hercules Powder and North American's Rocketdyne division. Again it has been necessary for United to embark on a crash program in order to catch up. The costs have been, and will continue to be, staggering. In both 1961 and 1962 the company expects to spend $50 million of its own money on research and development, a substantial portion of which will go into solid-fuel and solid-fuel engine research.

A More Difficult Conversion Problem

Although United was able very successfully to overcome its late entry into jets, it does not necessarily follow that it can do the same in the rocket engine field. While jet turbines represented a significant departure from piston engines many of the production techniques were similar. This is not the case when comparing jets

with rocket engines. The development and production of rocket engines is far afield from the production of jets; in fact, in rocket engines the fuel is more important than the hardware, and United has had virtually no previous experience with solid fuels. It also seems likely that rocket engines will experience very short production runs in comparison with jets and that there will be little if any non-military business. Hence, profit margins are likely to be much narrower.

In addition to Pratt & Whitney (piston and jet engines) and United Technology Corp. (rocket engines), United Aircraft has three other substantial divisions. The Sikorsky Aircraft division is the country's largest producer of helicopters; the Hamilton Standard division is the principal factor in the declining propellor business; and the Norden division specializes in electronic and electro-mechanical devices. **While each of these divisions is substantial in its own right, it is the engine business, contributing about 75% of total sales, which will make or break United.**

Due to the huge research and development expenditures plus some decline in jet engine sales, United's earnings have declined steadily from $7.97 per share in 1957 to $1.95 in 1860 and probably to about $1.60 this year. The quarterly dividend was cut from 75¢ to 50¢ during 1959 and has not been covered by earnings since the first quarter of 1960. The current dividend does seem safe, but only nominal earnings recovery can be expected in 1962. United appears to have fallen considerably in quality during the past several years and **it is by no means certain that its expensive crash program wil enable it to catch up to its competitors this time.**

When Boeing Looked Inferior to United

Boeing's position in 1957 was in no way as auspicious as that of United. The company did not have the investment standing of United, it was heavily involved in a questionable program of developing a commercial jet airplane. While the company had entered the missile business as early in 1945, missiles still accounted for less than 10% of sales at this time. Its two biggest programs then were the B-52 jet bomber and the KC-135 jet tanker.

While Boeing had been the pioneer in the development of a commercial jet aircraft, Douglas, Lockheed and General Dynamics' Convair division were close behind. Many experts were wary of Boeing's 707 program because, although it has been an expert in making high performance military aircraft where operating costs were of secondary performance, it had never been able to build a competitive, economical, commercial airplane.

Unexpected Success

As it has turned out, of course, Boeing's 707/720 series has been the only really successful domestic commercial jet program. The company had provided 41.5% of the Free World's civilian jets through 1960 and its commercial aircraft backlog has been increasing at a much faster rate than those of competitors. The company is now developing a shorter range 727 civilian jet transport with initial deliveries slated for 1963, and already it has orders for 117 such planes. The total backlog of orders for Boeing's commercial jets of all models is now believed to total about 210 units; approximately 240 units have already been delivered.

The 707/720 programs are now contributing to earnings after having been a drain in previous years due to the heavy development costs. Development costs on the shorter range 727 will continue to be substantial, but 707/720 earnings will more than compensate. **It seems quite likely that Boeing's family of commercial jets will produce substantial sales and earnings throughout the 1960's. Average annual earnings of $1.00 to $1.50 per share seem possible from these planes alone over the next 10 years or so.** Further, the company's dominant position in the jet field suggests that it will stand an excellent chance to play a major role when supersonic transports become feasible.

Missile and Research Activities

In 1957 Boeing's missile and space work consisted solely of being the prime contractor for the Bomarc missile. Now it is the associate prime contractor for the Minuteman ICBM and is system contractor for the Dyna Soar space glider, the follow-on to the X-15 program. The Minuteman program should begin to contribute significantly to sales and earnings in 1962 and is expected to rise significantly in volume through 1965 at least. Dyna Soar is expected to begin to build up to substantial volume by the middle of the 1960's. Bomarc may phase out in 1963, but foreign government buying could prolong its life. Of longer term significance is the fact that Boeing, through its Scientific Research Labs and its subsidiary Allied Research Associates, Inc., is carrying on research in a variety of areas such as plasma-physics, geo-astro physics, solid-state physics and various fields of electronics and design. Since tomorrow's business is often a result of today's research these projects augur well for the future.

Boeing is still heavily involved in military aircraft and helicopters. It is in this area that the company is experiencing the most serious difficulties. As it now stands, the company's large B-52 jet bomber program is slated to phase out late in 1962 and this could have an adverse affect on 1963 earnings. Other aircraft programs now in production include the KC-135 tanker transport, the C-135 cargo plane and several helicopters. A tiltwing VTOL (vertical takeoff and landing) aircraft is under development.

In 1960 military aircraft contributed 38% of sales, commercial aircraft accounted for 32% and missile, space and other activities for the remaining 30%. The company recently raised its quarterly dividend from 40¢ to 50¢ per share and its financial position is strong. Earnings of $4.50 per share may be anticipated for 1961 and further improvement to better than $5.00 is likely in 1962. Although 1963 earnings may be handicapped by the phasing out of the B-52 and introduction costs on the 727, the stock still has interesting trading potential at price less than 10 times estimated 1962 earnings.

Advantages of Boeing

In summary, it appears that Boeing has made far more progress and has built a better foundation for the future during the difficult transition period since 1957 than United. Also, Boeing's near-term earnings prospects seem far superior and the issue

sells at a considerably lower price-earnings multiple. More important, perhaps, is the fact that Boeing's management has moved into new areas quickly and aggressively. For example, it was the first to develop a commercial jet aircraft and it went into the missile business as early as 1945. United's management, on the other hand, has consistently been reluctant to enter new areas and has done so only when its existing business was threatened. It is true that in the case of jet turbine engines United's late entry did not stop it from eventually taking the number one spot, but it seems likely that an earlier entry might have been less costly. Further, it is by no means certain that United can duplicate its jet turbine success in the field of solid fueled rocket engines. END

Appraising Prospects For Blue Chips And Cyclical Stocks

(Continued from page 288)

lower price-earnings ratio.

Popularity of Defensive Issues

The foregoing more or less cyclical stocks contrast, not always sharply, with the familiar blue chips, of which a representative list of twenty has been compiled. For obvious reasons the consumer industries — food, tobacco, containers and retail stores as well as utilities—are heavily represented among these quality blue chips. However, this relationship is by no means invariable, for some of the most deeply hued investment favorites are companies with very little direct contact with the consumer market. Certain leading companies of this description—such as du Pont, Dow Chemical, Pfizer and others —are now increasing products sold to the final consumers.

Although not all of the food stocks have exhibited as consistent a growth pattern as **General Foods,** with increased earnings each year since 1951, most of them have been very stable. The erractic meat packers are excluded from this discussion.

With annual variations in earning power of such minor significance, the interest in food stocks in concentrated in the rate of growth and in yields. At present, growth prospects are generally viewed as favorable but yields have been cut to abnormally low levels—less than 2% for General Foods, Corn Products, Campbell Soup and others. It is obvious that uncertainties affecting the entire market have created a heightened preference for the defensive issues, but prices in many instances are so lofty that new purchases can not be well justified.

Most of the tobacco stocks, like **R. J. Reynolds,** are selling at a high level. While they have apparently overcome the health scare and a government crackdown on advertising, they still face excessive rivalry between brands. Reynolds' current yield of 1.7% contrasts very sharply with the 5% to 6% that was typical for this issue only a few years ago. Some of the other tobacco stocks are available on a somewhat more favorable income rate.

Offering a higher yield and selling at a lower multiple of earnings than most of the utilities. **American Telephone** has attracted wide investors interest. The stock is today regarded as a longer term growth situation.

Divergent Retail Results

Different segments of the retail industry have shown conspicuously divergent trends in recent years. While the discount houses have flourished, many downtown department stores have languished. **Sears Roebuck,** the leading retailer of general merchandise, has continued to enjoy a steady forward momentum, hardly interrupted even by last year's recession, and earnings are expected to reach a new peak again this year.

In contrast with Sears, many companies in the variety chain field have been somewhat stagnant during the past decade, as newer forms of retailing have lured shoppers away. **J. C. Penney,** with its outlets concentrated in the agricultural areas of the country, has maintained its position better than most variety chains and still deserves blue chip status. **Woolworth** has enjoyed the advantage of its dividend income from the important British and German affiliates. The formation of its new Woolco discount chain could prove to be a stimulating catalyst for the company. In any event most retailers must make drastic changes in their organizations.

Other Quality Companies

Other companies can be mentioned only very briefly—**American Home Products** has demonstrated a sharp and sustained upward trend both in price and earnings, but as the former has been much steeper than the latter the present earnings appraisal is indeed generous.

Du Pont has received an indirect boost from General Motors' recent extra dividend, but no marked earnings growth has been shown since 1955 and competition in the chemical industry is intense. Some signs do suggest, however, that the company may soon be able to resume its forward trend. Closely identified with the steel industry, **Union Carbide** is now seeking wider diversification.

Minnesota Mining, offering less than a 1% yield, exhibits a lofty price-earnings multiple of some 50 times but the real recordmaker in this respect is fabulous **IBM,** which is always rising. Although management of both companies is superb, new investments in these issues could well be postponed.

How These Groups Are Different — And The Same

It should not be imagined that blue chips can be purchased any less carefully than cyclical issues. The foregoing discussion does illustrate, however, one important distinction between the two categories. In considering the better quality blue chip issues, the investor must think largely in terms of price. Provided he has identified this category properly, inherent value, fair earnings stability and some prospects of growth can be viewed as reasonably assured. The basic question will usually be whether these stocks are worth present prices.

With the cyclical issues, price is still, as always a factor, but the major question concerns the outlook for the company and the industry. What is the basic trend? Can present problems be solved? Are there new developments in sight? Is diversification advisable?

Of course, the two groups do have an even stronger factor in common. That is management. The problems of either group are bound to be difficult, and competent management is the best possible assurance of solution. END

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